

FEDERAL BUREAU OF INVESTIGATION
FOI/PA
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FOI/PA# 1362219-0

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FBI

TRANSMIT VIA:

☐ Teletype
☐ Facsimile
☒ Airtel

PRECEDENCE:

☐ Immediate
☐ Priority
☐ Routine

CLASSIFICATION:

☐ TOP SECRET
☐ SECRET
☐ CONFIDENTIAL
☐ UNCLAS E F T O
☐ UNCLAS

Date 10/14/83

TO: SAC, ALEXANDRIA (58-246)
 FROM: *APW/lmb* SAC, SEATTLE (58-315) (P)

THOMAS K. JONES
 DEPUTY UNDERSECRETARY OF DEFENSE;
 ET AL;
 COI - DOD
 OO: ALEXANDRIA

Re Seattle airtel to Alexandria, dated 8/12/83.

Enclosed, for the Alexandria Division, are the original and one copy of an investigative insert including several enclosures.

Inasmuch as the information furnished by (contained in the enclosed insert) was primarily hearsay, no FD-302 has been dictated by the Seattle Division.

The Alexandria Division is requested to review the enclosures and advise Seattle if any investigation should be conducted based on the information contained therein.

② Alexandria (58-264) (Enc. 2)
 2 - Seattle (58-315)
 RNN:lm
 (4)

1*

Approved: _____ Transmitted _____

(Number)

(Time)

Per _____

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264-152
11/11/83
PMBS

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FEDERAL BUREAU OF INVESTIGATION

1

10/21/83

Date of transcription

[redacted] H.R.A., Incorporated, 1500 Wilson Boulevard, Suite 417, Arlington, Virginia, was contacted at his place of employment and was advised that the interview concerned his employment at the Boeing Company and his association with various Pentagon officials.

[redacted] advised that he has been an associate with H.R.A. since [redacted] H.R.A. is involved in engineering consulting work. Prior to [redacted] he was at the Boeing Aerospace Company for three years in the International Programs department. [redacted] stated that while at Boeing, he had a social relationship as well as a business relationship with Thomas K. Jones and Melvyn Paisley. [redacted] advised that Jones was in mission analysis and Paisley was the proposal manager who coordinated Requests For Proposals (RFP) responses. [redacted] stated that he was aware that Jones and Paisley had received job offers from the government; however, he was unable to recall if he learned about the offers from them or other co-workers. [redacted] advised that he was not able to recall if either Jones or Paisley discussed the financial impact of accepting government jobs with him or not. [redacted] stated that he was not aware of Jones or Paisley submitting anything to the Boeing Company that indicated the financial impact of the move. [redacted] advised that while he was still employed with Boeing he had numerous telephone conversations with Paisley and Jones in Washington, D. C., at their Pentagon offices. [redacted] stated that these contacts were purely social and he would have no reason for calling them on business related matters. [redacted] advised that his position at Boeing was one that required him to travel to Washington, D. C., on numerous occasions. When he did come to Washington, D. C., he would see Jones or Paisley socially. [redacted] stated that he did not discuss Boeing business with either Jones or Paisley, nor was he ever given any inside information by either of them. [redacted] advised that the only time he had a business relationship with Jones or Paisley was when he was on the Naval Research Advisory Committee. At the end of this program the committee briefed Paisley on their study. [redacted] stated that he has had no other professional contact with Jones or Paisley. [redacted] advised that since he has been in Washington, D. C., he has seen Jones and Paisley each three or four times on a social basis. [redacted] stated that neither Jones nor Paisley ever discussed their future plans with him and he is not aware of what they will

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do when they complete their government service.

Investigation on 10/20/83 at Arlington, Virginia File # Alexandria 58-264

by SA [redacted] :kar

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Date dictated

10/21/83

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72

UNITED STATES GOVERNMENT

Memorandum

TO : SAC (58-264)

DATE: 12/20/83

FROM : SA [REDACTED]

b6
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SUBJECT:

Holiday Duty

On 12/19/83 [REDACTED]

[REDACTED], DOJ, Public Integrity Section advised that Ax file 58-264 will be presented to a grand jury 1/3 and 1/4.

Fourteen witnesses have been subpoenaed. b6
b7C

The writer will be the first witness to give an overall view of the case and to introduce documentary evidence. [REDACTED]

requested the writer be available 1/2

to discuss my testimony as well as prepare questions for the other 14 witnesses. The writer requests permission

to work a 10am - 6pm shift on

the holiday 1/2.

58A-264-159
mu mu



5010-110

Approved
12/20/83

Td/ACP
HOLIDAY PAY
APPROVED

[REDACTED]

PMS

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Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

SEO 002

RR AX

DE SE

R 220620Z DEC 83

FM SEATTLE (58A-315) (P)

TO ALEXANDRIA (58A-264) ROUTINE

BT

UNCLAS

THOMAS K. JONES, DEPUTY UNDER SECRETARY OF DEFENSE; ET AL; COI -
DOD; OO: ALEXANDRIA.

RE LETTER FROM [REDACTED] TO FBI, SEATTLE, DATED
DECEMBER 16, 1983, AND A TELCAL FROM SPECIAL AGENT [REDACTED]
SEATTLE FBI TO [REDACTED] ON DECEMBER 19, 1983.

ON DECEMBER 20, 1983, SUBPOENAS WERE SERVED UPON THE FOLLOWING
INDIVIDUALS BY SPECIAL AGENT [REDACTED] OF THE SEATTLE OFFICE
OF THE FBI:

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(X) [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED] (X). ALL RECIPIENTS RE-

CEIVED A LETTER WITH THEIR SUBPOENAS, EXCEPT FOR [REDACTED] AND
[REDACTED]

58A-264-160

uh uh

pl

PAGE TWO 58A-315 UNCLAS

IN ACCORDANCE WITH INSTRUCTIONS FROM [REDACTED] SA [REDACTED]
DESTROYED SUBPOENAS FOR [REDACTED] [REDACTED] [REDACTED]
[REDACTED] AND [REDACTED].

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THE ORIGINAL COPY OF ALL SUBPOENAS SERVED WILL BE FORWARDED
TO ALEXANDRIA BY SEPARATE COMMUNICATION WITH THE RETURNED PORTION
EXECUTED.

BT

58-264-151

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| FBI - ALEXANDRIA | |
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Another Boeing investigation

THE WEEKLY
2-28-79

Recently, a curious story flashed across the front page of *The Seattle Times* and disappeared. It mentioned that "several executives of The Boeing Co. lost their security clearances with the federal Department of Defense." Boeing brushed off the incident as a temporary lifting of clearances, "just an investigation, nothing more."

Likewise the Department of Defense says that while an investigation is being carried out by its investigative arm, the Defense Investigative Service, such liftings are "nothing unusual. If there is a basis for an allegation, we routinely separate the persons involved from access to classified information."

There's no evidence that the story is serious, though some insiders at Boeing are worried. Jack Anderson picked up the story, and gave it his usual Armageddon treatment on a February 20 radiocast (Defense is checking the possibility that certain contracts went to Boeing because they were in a better bargaining position due to leaked classified material, said Anderson); he is said to be dispatching a reporter to Seattle this week.

Sources have supplied names of four company officials allegedly involved, but none of them could be contacted for confirmation—they were all on vacation, according to their secretaries, and those who could be reached at home, referred calls to corporate PR. These names, if they are the people in question, are fairly high up in Seattle and DC offices of Boeing.

According to one source, security-clearance incidents often stem from a fairly common practice at DOD. Once a new military threat is discovered, according to this source, Defense it tempted to leak the information to the desired contractor who can come up with an answer to this new weapon system. This route is preferred to public bidding both to avoid alarming the public and to see that the best contractor gets a leg up on the job. In the process, some of the rules about classified documents can get skirted. If this practice is widespread or blatant, of course, a whole company can be in danger of losing its security clearance. So far, there's no evidence that Boeing's incident is anything more than a routine one, possibly inspired by a miffed competitor.

Meantime, the local press accounts of Boeing's overseas payments give the impression that the company has been given a clean bill of health by its own special board committee of outside directors. But the investigations are not over. The special committee also revealed that a federal grand jury and the IRS are continuing the probe. Here's an example of two ways to play the same story. First, *The Wall Street Journal's* lead:

"A federal grand jury is investigating Boeing Co., presumably in connection with questionable overseas payments previously reported by the company."

Here's the lead in *The Seattle Times* (which mentioned the grand jury probe in the last sentences of the story):

"A committee of outside directors of The Boeing Co. has found the aerospace company thoroughly completed an earlier investigation of Boeing payments overseas and that no further investigation is required."

—David Brewster

Pentagon Probe Completed

A Pentagon investigation completed last Friday alleges that several Boeing officials successfully obtained facts from the top-secret draft and then conspired to prevent defense agents from discovering the story behind the unauthorized disclosure.

It wasn't until early this year, some 10 months after the Pentagon investigation began, that James L. O'Rourke, a Boeing employee testifying under a Justice Department grant of limited immunity from criminal prosecution, gave the history of the leak.

Mr. O'Rourke, a marketing representative in the Washington office of Boeing's Boeing Aerospace Co. subsidiary, told investigators that he had read the secret draft memo and made notes. He then prepared a summary that was transmitted by telecopier from Boeing's Washington office to its Seattle headquarters last March 27. Pentagon officials presume that the information, transmitted over a normal telephone line, was routinely collected by Soviet agents, who they say monitor telephone lines to and from defense contractors.

The Pentagon is referring the case to the Justice Department for possible criminal prosecution.

Meantime, the Pentagon has suspended the security clearances of six Boeing employees, including Mr. O'Rourke and Ben T. Plymale, currently marketing vice president of Boeing Aerospace and formerly deputy assistant secretary of defense for strategic and space systems. In addition, the government temporarily barred two Pentagon officials, Lt. Col. Kenneth Van Dillen and Stuart Rubers, a civilian strategic analyst, from access to classified information for alleged roles in the security breach.

Boeing's Statement

Boeing isn't anxious to discuss the matter. In response to a query, a Boeing spokesman read a statement saying that "six Boeing employees—two of whom are secretaries—have had their security clearances suspended temporarily. Restoration of the clearances depends on the outcome of the investigation by the Department of Defense into an incident of handling classified information without appropriate safeguards."

Richard Albrecht, Boeing's general counsel, wouldn't discuss the case directly, but he said through a company spokesman that Boeing has always demanded of its employees strict adherence to security regulations. He insisted that Boeing cooperated as fully as possible with Pentagon investigators and asserted that the investigation doesn't involve an attempt by Boeing to gain a competitive advantage on any government program.

Mr. Plymale confirms that his security clearance has been suspended but says he doesn't want to comment further on the

Please Turn to Page 26, Column 1

Pentagon Studies How Secret Data On Missile Were Obtained by Boeing

Continued From First Page

matter. Mr. O'Rourke couldn't be reached for comment.

Defense officials say the incident underscores some of the problems inherent in the comfortably symbiotic relationships that develop between military planners and major contractors. They must exchange information while designing weapons, and they come to share a commitment to promoting their projects over competing alternatives.

The movement of weapon experts between industry and government jobs, frequently on the same project, facilitates the easy flow of information and tends to blur the distinction between national security and corporate goals. Several of the principals in the Boeing case have alternated between jobs with the government and with the giant aerospace firm.

As a result, "this type of thing goes on all the time," one defense official says, referring to the Boeing case. But "nobody gets caught," partly because such security breaches rarely come to light. Thus, defense officials jumped on the Boeing case as a way to issue a warning, even though the secret that may have been compromised wasn't a major one.

Based on interviews with about 50 people, many under oath, agents from the Pentagon's Defense Investigative Service produced an account of the leak. It shows the interplay between Capitol Hill, industry and

the Pentagon as well as the sometimes-byzantine politics within the Pentagon.

The saga began last March 20, investigators say, when the staff of Seymour Zeiberg, deputy under secretary of defense for strategic and space systems, began work on a memo entitled "MX and Alternatives" for President Carter. A day or two later, Peter Hughes, a former Boeing employee currently on the staff of the House Armed Services Committee, told Boeing's Mr. O'Rourke that he understood the report had gone to the President.

Over the next few days Mr. O'Rourke learned that the report was still being drafted and that one of the alternatives, if adopted, could sharply reduce the amount of new business potentially available to Boeing.

The MX is a big new ICBM with up to 10 nuclear warheads. The Air Force wants to deploy the MX to modernize its current force of 1,000 smaller Minuteman missiles, which are stationary in underground silos. Because defense officials believe these silos will become vulnerable to attack from increasingly accurate Soviet missiles, they want to make the MX missiles mobile. A mobile MX system would cost about \$20 billion to build and deploy.

At the time of the incident, Boeing was competing to become the prime contractor for the MX program, as it had been for the Minuteman. In a decision unrelated to the security investigation, the Air Force subse-

quently selected Martin Marietta Corp. to supervise development and construction of the missile. But Boeing still might win contracts for aircraft or construction administration proceeds with plans for bile deployment.

The Pentagon's Reconstruction

Pentagon investigators reconstruct Boeing case this way:

While checking the tip from Mr. Hughes about the draft memo, Mr. O'Rourke determined that one of the MX alternatives Pentagon civilians were preparing for President involved placing the Locust Corp. Trident missile, an ICBM designed to launch from submarines, into existing uteman silos. Such a move (which seems highly unlikely) would sharply reduce Boeing's opportunities to participate in the program.

Then Mr. O'Rourke visited some Air Force officers to discuss the memo with President. Although the officers were involved in the MX project, they apparently lacked detailed knowledge of what was being drafted for Mr. Carter. Mr. O'Rourke suggested that the Air Force should make some contribution to the memo.

On March 23, Major Gen. Charles H. Kuyk, then the head of operational requirements for the Air Force Research and Development Office, got what defense investigators call a "bootleg" copy of the closely held report from Hua Lin, a Boeing employee on to work in the Pentagon's Weapons Research and Development Office. Gen. Kuyk gave a copy to Lt. Col. Kenneth Van Dillen, one of the officers Mr. O'Rourke had alluded to in the draft, with instructions to analyze it for top Air Force brass.

Taking Notes

On the same day, Mr. Plymale, Boeing aerospace marketing vice president, discussed the memo with Mr. Hughes, Hill staffer who had initially tipped the officials to the report. The next day Plymale asked Mr. O'Rourke to get a copy of the memo.

Several days later, Mr. O'Rourke told Col. Van Dillen for a copy of the memo. The Air Force officer refused to hand one over but he did allow the Boeing man to read and take notes. From these notes O'Rourke wrote the report that was submitted by telecopier to Mr. Plymale in the Pentagon. (Col. Van Dillen declines to comment about the case.)

On March 28, Mr. Plymale talked with Zeiberg, whose office had written the memo at a conference in California and discussed aspects of the memo in such great detail that the Pentagon official concluded Mr. Plymale had read the memo. When Zeiberg asked how the Boeing man had obtained his information, Mr. Plymale said he had found on his desk a telecopied report in a brown envelope delivered by an unknown source.

Pentagon officials say that Mr. Plymale's "fabrication" about receiving the information from an unknown source was the first step in a concerted campaign to impede investigation of Mr. Zeiberg's report suspected leak.

The efforts—which in one way or another involved Mr. Plymale and an assistant, William H. Jacaway; Charles Welling, Boeing aerospace marketing manager in Washington; and Mr. O'Rourke—included the destruction of evidence and other steps to hinder the inquiry, investigators say. Messrs. Jacaway and Welling are among the six Boeing employees to have their security clearances suspended.

Ironically, the memo Boeing wrote was never sent to President Carter. "It was too technical," a defense official says, "a simpler one went."

Uncommonly attractive coat rack Uncommonly attractive price

Our overseas buyer spotted this charming, Victorian bentwood coat rack. Did an amazing deal. Result: we can offer it to you for about half what others have sold it for.

But price is only part of the story. The coat rack itself is truly stunning. Made of solid hardwood, in a beautiful pecan finish. Bentwood styling, made popular in the Victorian era, is timeless, universal. Fits in any hallway or foyer. Great accent piece for a businessman's office. Even works as "valet" in a bedroom or den.

Stands six feet tall, has rotating top with six arms—twelve hooks—for plenty of coats and hats (yes, people still wear hats!). Plus a ring for umbrellas, walking sticks, parcels.

We've seen this bentwood coat rack offered for \$69.95, \$49.95 and \$39.95. And at those prices, it's still a bargain. Due to our buyer's shrewdness, we're



Rotates for easy, fast hang-ups or selection

6 FEET TALL

3

Pentagon Studies How Boeing Got Secret Information

* * *

**Leak of Memo on MX Missile,
Possibly Helpful to Firm,
May Also Benefit Russians**

WALL STREET JOURNAL 3-1-79

By KENNETH H. BACON

Staff Reporter of THE WALL STREET JOURNAL

Major defense contractors frequently prowl the halls of the Pentagon and Congress, working to protect and increase their share of the \$59 billion the military spends annually on arms and supplies.

But last spring, Boeing Co. of Seattle, the nation's fourth-largest defense contractor with some \$1.6 billion a year in Pentagon business, apparently went too far.

Pentagon investigators assert that several Boeing officials violated national security restrictions by gaining unauthorized access to information classified top secret. They then handled the sensitive material in such a way that Pentagon officials believe it probably was intercepted by Soviet intelligence agents.

The information came from a document the Pentagon was preparing last March for President Carter. The draft memo discussed whether the administration should build a new land-based intercontinental ballistic missile, called the MX, or proceed with one of several less-costly alternatives for modernizing the nation's strategic arsenal.

That question, still unanswered, is one of the most important military issues President Carter faces. It is also of vital concern to Boeing. Depending on the decision, Boeing could win or fail to win billions of dollars of business over the next decade.

4

Boeing Reviews Controls on Secret Data Of U.S.; Pentagon to Press Such Action

WALL STREET JOURNAL 3-2-79

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON—Boeing Co. is reviewing its controls on classified government data and the Pentagon plans to encourage other defense contractors to do the same.

As reported in yesterday's Wall Street Journal, the Pentagon suspended the security clearances of six Boeing employees after finding that several of them obtained facts from a secret memo defense officials were drafting for President Carter.

Although the Boeing employees had security clearances that allowed them to deal with certain classified information, the Pentagon officials say they didn't have authority to see the facts contained in the memo, which discussed programs to modernize a strategic missile system.

The incident has triggered concern, both at Boeing and in the Pentagon, over enforcement of safeguards designed to prevent the unauthorized disclosure of sensitive defense data. Some Pentagon officials believe classi-

fied data may be treated too casually in the close relationships that often develop between military and corporate experts who cooperate in the development of new weapons.

Even before Pentagon investigators learned the full facts of the Boeing case, a number of government officials had been worried about the security of defense information used by corporations.

William Webster, Director of the Federal Bureau of Investigation, says that defense contractors are a prime target of Soviet intelligence operations in the U.S. Over a year ago the Central Intelligence Agency intensified its program for monitoring the security operations of companies with which it deals.

In a letter sent last Friday, T. A. Wilson, Boeing's chairman, told the Defense Department that the company has taken a number of steps "to reemphasize to employees their obligations and responsibilities for safeguarding classified information."

Among other things, Boeing spokesman Peter Bush said, Mr. Wilson has warned Boeing employees that they shouldn't "solicit or accept classified matter" unless they need to know the information. The need to know is one of the standards the government uses in determining who gets access to classified data.

Boeing also said it expects all employees to cooperate with government-security investigations. Pentagon investigators say several Boeing employees tried to block them from learning the facts behind the leak.

Mr. Wilson also told defense officials that Boeing plans to hold a round of management seminars on security rules.

A defense official said the Pentagon plans to urge all defense contractors to reexamine their security procedures.

5

Coverup attempt

Boeing officials destroyed papers in security probe

by DEAN KATZ
Times Washington bureau

WASHINGTON — Boeing Co. officials implicated in a security breach involving top-secret defense documents deliberately destroyed key evidence after Pentagon investigators began probing the matter, The Times has learned.

In one instance last year, James L. O'Rourke, a marketing representative in Boeing's Washington, D.C., office, burned documents that were the subject of investigation.

(O'Rourke has been suspended without pay pending outcome of the government investigation, Pete Bush, Boeing spokesman, announced in Seattle yesterday.)

Two Boeing vice presidents, Ben T. Plymale and Robert L. Hager, also destroyed evidence after the Pentagon investigation began early last year.

Plymale, Boeing Aerospace's vice president for marketing, asked O'Rourke to plant false documents in Boeing files in Washington, D.C., in hopes of confusing Defense Department investigators.

A Pentagon investigation com-

pleted last month says that several Boeing officials also conspired to prevent investigators from discovering the facts behind the unauthorized disclosure and that the officials were uncooperative with Defense Department agents.

Officials at the Defense Department are concerned that Boeing violated national-security restrictions by gaining unauthorized access to information in a memorandum being prepared for President Carter by Pentagon brass.

The memorandum discussed whether the administration should build a new land-based intercontinental ballistic missile, called the MX, or proceed with one of several less costly alternatives for modernizing the nation's strategic arsenal.

Boeing, the nation's fourth-largest defense contractor with more than \$1 billion in Pentagon contracts, has done some preliminary work on the MX missile and sought other missile-related contracts from the Defense Department.

A summary of the memorandum intended for Mr. Carter was transmitted last March 27 by telecopier over telephone lines from Boeing's Washington, D.C., office to its Seattle headquarters. Penta-

gon officials are concerned that it could have been intercepted by Soviet intelligence agents.

Boeing has said it has no evidence that the Russians obtained any information.

Since the Pentagon probe began, the security clearances of six Boeing officials, including Plymale and O'Rourke, have been lifted. Plymale formerly was a deputy assistant secretary of defense for strategic and space systems.

Two Pentagon officials involved in the leak of classified information also have had their clearances lifted temporarily.

Tuesday the Defense Department referred some documents regarding the investigation to the Justice Department for possible criminal prosecution.

O'Rourke cooperated with Pentagon investigators and gave them much of the information regarding the role he and others played in gaining access to and distributing certain documents.

But Plymale and others at Boeing reportedly have not cooperated with agents of the Pentagon's Defense Investigative Service, which conducted the probe.

(Related article, A 15.)

6

The Boeing example, and the new mood at the Pentagon

THE
WEEKLY
3-7-79

The *Wall Street Journal* last week left a lot of reporters unhappy when it unearthed the full story of the security investigation at Boeing. The story detailed the Pentagon investigation over the way four Boeing employees obtained information from a secret memo on the air force's proposed new MX missile, which may be replacing the nation's Minuteman missile system.

Local accounts, as in the *Seattle Times*, tended to downplay the embarrassing episode: "this sort of security violation goes on all the time," said Robert Twiss in his worldly-wise manner. Boeing was described as moving promptly to clean up the problems by conducting an internal probe and instructing employees not "to solicit or accept classified matter" unless they have a "need to know."

The seriousness of Boeing's violation is an unknown. But the story does underscore a new willingness by the federal authorities to clamp down hard on security violations. A year ago, the CIA quietly increased its monitoring of defense contractors, and the FBI says defense contractors are a prime target for Soviet intelligence operations in America. In short, Boeing is in the unfortunate position of being the company about to be made an example of.

Behind this new resolve is a growing feeling in the government that America's defense posture is becoming so weak, measured against rapid growth of the Soviet missile force and other offensive weapons, that we are inviting an era of Russian adventurism all over the globe.

—DB

ad-49

A man identified as Gordon D. Brandrith, 50, of Nehalem, Ore. was killed Friday afternoon when his airplane crashed as he attempted to land at Evergreen Flying Service Airport near Vancouver. Winds were gusty. Veteran pilots said landing at the small field under such conditions requires flying skill. It took firemen about 45 minutes to get the body from the wreckage.

Boeing mum about breach of missile secrets

By The Associated Press

Boeing Co. officials won't discuss publicly a report that one of its employees on leave as a researcher for the Pentagon provided the aerospace company with access to a classified defense document.

The possible leak of the document to Soviet spies has sparked investigations by the Pentagon and Justice Department.

Boeing spokesman Pete Bush in Seattle, when asked to respond a Seattle Times story Friday, repeated an earlier "no comment" statement on the same subject saying, "We don't think it is appropriate to discuss allegations impugning individuals and we intend to maintain this stance until the investigation is complete."

Hua Lin, a Boeing employee on leave to work in the Pentagon's Weapons Research and Development Office, provided a "bootleg" copy of a top secret memorandum, being prepared by Defense Department brass, the newspaper said.

THE MEMO was for other Pentagon officials, who ultimately allowed a Boeing executive to see and take notes from the document, the paper said.

A Boeing executive, James L. O'Rourke, who since has had his security clearance lifted, transmitted a summary of the memo from Washington, D.C., to Boeing's Seattle headquarters over telephone lines on a telecopier machine.

Pentagon officials fear Soviet in-

telligence agents could have intercepted the information since they routinely monitor telephone lines of major defense contractors.

After discovering the leak of information to Boeing, Pentagon investigators conducted a probe, which was completed two weeks ago. Boeing has suspended O'Rourke without pay while the investigation continues.

The story said Pentagon investigators reconstructed the Boeing case this way:

ON MARCH 20, 1978, the staff of Seymour Zeiberg, deputy undersecretary of defense for strategic and space systems, began work on a memo entitled "MX and Alternatives" for President Carter.

Boeing has done some preliminary work on the MX missile and at the time was competing for a major role in the MX program, which it later lost to another company.

A day or two later, **Peter Hughes**, a former Boeing employee, telephoned O'Rourke, a marketing representative for Boeing, to tell him of the memo.

O'Rourke agreed to inquire about it and over the next few days tried to find the document.

Stuart Rubers, a civilian analyst for the Pentagon, showed O'Rourke part of the draft memo during a meeting and O'Rourke later read some parts of the report, with Rubers' knowledge.

O'Rourke then told Air Force officials involved in the MX program about the memo and suggested they make some contribution to the report.

Heave his accusations would not be further pursued, the newspaper said.

The former executive nor the candidate in the 1972 campaign were identified.

ON MARCH 23, Major Gen. Charles Kuyk of the Air Force Research and Development Office got a copy of the memo from Hua Lin. Kuyk gave the copy to Lt. Col. Kenneth Van Dillen, with instructions to write an analysis for top Air Force officials.

A Boeing vice president, Ben T. Plymale, asked O'Rourke to get a copy of the MX memo so he could discuss it at an upcoming conference which Zeiberg, whose office drafted the memo, was scheduled to attend.

On March 27, O'Rourke asked Van Dillen for a copy of the memo. Van Dillen refused, but allowed O'Rourke to read it and take notes.

O'Rourke used the notes to prepare a summary which he transmitted by telecopier to Plymale, marketing vice president of the Boeing Aerospace Co. Another copy went to Robert W. Hager, another Boeing vice president.

ON MARCH 28, Plymale met with Zeiberg in California and discussed the memo in such detail that Zeiberg concluded Plymale had seen it.

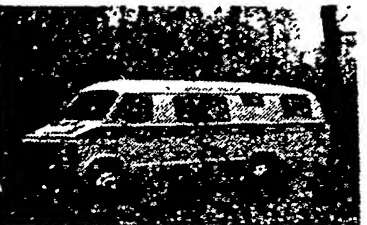
When asked by Zeiberg how he obtained his information, Plymale said he found a brown envelope on his desk, sent from an unknown source, containing a draft copy of the memo. Plymale said he took the document home with him and after reading it, destroyed it.

Pentagon officials say Plymale's "fabrication" about receiving the information from an unknown source was the first step in a concerted effort by Boeing to impede the probe and to cover up the unauthorized disclosure of the memo.

knowledge of asserted incidents of industrial espionage and company-solicited employee contributions to political candidates.

Last November, according to confidential correspondence, the

campaign. The Boeing man then received a series of instructions from the aide. These then were carried out on behalf of the aide's — and Boeing's — candidate, the report says.



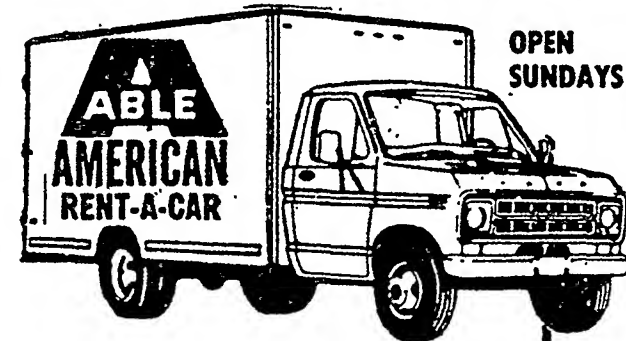
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JOURNAL AMERICAN

Boeing man in Pentagon leaked memo

by DEAN KATZ

Times Washington bureau

WASHINGTON — A civilian Pentagon researcher on leave from The Boeing Co. indirectly was responsible for providing Boeing officials with access to a classified defense document that has spurred investigations by the Pentagon and the Justice Department.

Hua Lin, a Boeing employe on leave to work in the Pentagon's Weapons Research and Development Office, provided a "bootleg" copy of a top-secret memorandum, being prepared by Defense Department brass, to other Pentagon officials. Those defense officials permitted a Boeing executive to see and take notes from the document.

A Boeing executive, James L. O'Rourke, who since has had his security clearance lifted, transmitted a summary of the memorandum to Boeing's Seattle headquarters from Boeing's Washington, D.C., office over telephone lines on a telecopier machine.

Pentagon officials fear Soviet intelligence agents could have intercepted the information, since they routinely monitor telephone lines of major defense contractors.

After discovering the leak of information to Boeing, Pentagon investigators conducted a detailed probe which was completed two weeks ago.

Boeing has suspended O'Rourke without pay while the investigation is under way.

Pentagon investigators reconstructed the Boeing case this way:

On March 20, 1978, the staff of

Seymour Zeiberg, deputy under-secretary of defense for strategic and space systems, began work on a memo entitled "MX and Alternatives" for President Carter.

Boeing has done some preliminary work on the MX missile and at the time was competing for a major role in the MX program, which it later lost, in unrelated action, to another company.

A day or two later, Peter Hughes, a former Boeing employe now working for the House Armed Services Committee, telephoned O'Rourke, a marketing representative for Boeing, to tell him of the memorandum.

O'Rourke was unfamiliar with the document but agreed to inquire about it. Over the next few days, O'Rourke tried to find the document.

Stuart Rubers, a civilian strategic analyst for the Pentagon, showed O'Rourke part of the draft memo during a meeting, and O'Rourke later read some portions of the report, with Ruber's knowledge.

O'Rourke then told Air Force officials involved in the MX program about the memorandum and suggested they make some contribution to the report.

On March 23, Major Gen. Charles Kuyk, then head of operational requirements in the Air Force Research and Development Office, got a copy of the memorandum from Hua Lin, the Boeing employe on leave to work at the Pentagon. (Hua Lin since has admitted he gave Kuyk the memo outside of normal channels.)

Kuyk gave the copy to Lt. Col. Kenneth Van Dillen, one of the

officers O'Rourke already had told of the draft, with instructions to write an analysis for top Air Force brass.

A Boeing vice president, Ben T. Plymale, asked O'Rourke to get a copy of the MX memorandum so he could discuss it at an upcoming conference which Zeiberg, whose office drafted the memorandum, was scheduled to attend.

On March 27, O'Rourke asked Van Dillen for a copy of the memo. Van Dillen refused the request but did allow O'Rourke to read it and take notes.

O'Rourke used the notes to prepare a summary which he transmitted by telecopier to Plymale, marketing vice president of the Boeing Aerospace Co.

Another copy went to Robert W. Hager, another Boeing vice president.

On March 28, Plymale met with Zeiberg at a conference in California and discussed aspects of the memorandum in such detail that Zeiberg concluded Plymale had seen the memo.

When asked by Zeiberg how he had obtained his information, Plymale said he had found a brown envelope on his desk on March 24, sent from an unknown source, containing a draft copy of the memo. Plymale said he took the document home with him and, after reading it, destroyed it.

Pentagon officials say Plymale's "fabrication" about receiving the information from an unknown source was the first step in a concerted effort by Boeing officials to impede the investigation and to cover up the unauthorized disclosure of the memorandum.

After Boeing officials learned

that Zeiberg had reported the security violation and that an investigation had begun, O'Rourke and William H. Jacaway, of Boeing's strategic-planning office in Seattle, agreed that O'Rourke should destroy all the documents he had relating to the memorandum.

O'Rourke burned the documents at home, while Jacaway told a Boeing official in the company's Washington, D.C., office to make sure there were no incriminating documents there.

Plymale, who destroyed his copy of the O'Rourke summary, later tried to plant a fabricated

document in Boeing Co. files in Washington, D.C., in hopes of throwing off investigators.

Hager, the other Boeing vice president, destroyed his copy of the O'Rourke summary as well.

Ironically, the memorandum never was sent to Mr. Carter.

Five who lost security clearance return to Boeing

Five of six Boeing Co. employees who lost their security clearances are back at work in jobs not requiring such clearances. The sixth has been suspended without pay pending a government investigation of the security case, said Pete Bush, a Boeing spokesman.

The top-secret security clearances were revoked by the Defense Department last month when it was reported the six mishandled classified information on the proposed MX strategic missile.

One of the six, Benjamin T. Plymale, a Boeing vice president and former deputy defense secretary, has returned from sick leave following a gall-bladder operation, Bush said. He said Plymale is being assigned duties not requiring a clearance.

William Jacaway, once an aide to Plymale, has been reassigned to Boeing's rapid-transit program, Bush said.

Charles Welling, formerly in Boeing's Washington, D.C., office, is arranging a marketing conference and plans to go on vacation, Bush said.

Two women secretaries involved in the case have been transferred to nonsensitive work, Bush added.

The suspended employee is

James L. O'Rourke, a marketing representative in Boeing's Washington office.

The Wall Street Journal reported last week that O'Rourke, who was reported at the time on "administrative leave" along with Welling, had given information on the case to Defense Department officials.

O'Rourke told defense investigators that he saw, with permission of an Air Force colonel, a memo being prepared for President Carter on the MX. O'Rourke then transmitted a summary of the memo to Plymale's office here on a telecopier over telephone lines.

Soviet intelligence agents are known to monitor defense contractors' telephone lines, Pentagon officials say.

The Defense Department Tuesday turned over to the Justice Department preliminary information on the case. The Justice Department will investigate to see if any federal laws were violated and whether prosecution is warranted.

The Defense Department began its investigation last March.

Boeing is cooperating in the probe and has pledged support for security regulations.

Saturday
March 10, 1979



WEATHER

Fair and warm.

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low, 35 to 40. Details, D 26.

The Seattle Times

Washington's largest newspaper

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56 pages-15c ★ ★

Former executive reports trip

Boeing campaigned for Jackson

by RICK ANDERSON
Times staff reporter

A former Boeing Co. executive says a trip he took in 1971 to New Hampshire on company business was in reality a company-paid political jaunt to work on the presidential campaign of Senator Henry M. Jackson.

The executive, who is requesting an-

onymity, says the trip was arranged through another Boeing official and one of Jackson's longtime friends and campaign officials, John Salter.

Salter yesterday said he didn't remember the incident. Boeing officials also denied it. Jackson's office said the senator had no knowledge of it.

The former executive, who says he believes the trip may have violated fed-

eral law involving corporations and political campaigning, told a federally ordered special investigative review board late last year about the trip.

The three-member board, set up as part of a federal-court agreement between Boeing and the Securities and Exchange Commission over some of Boeing's overseas payments that were questioned, told the man two months ago

it had reviewed his statements but was taking no further action.

A copy of the board's final report, a public document, does not mention the man's statements, which included other allegations of improper or illegal acts by the aerospace giant, the man says.

Originally, the former executive says, he went to other Boeing officials with his information, but got no satisfac-

tion.

A Boeing spokesman yesterday said the company had "thoroughly checked out" the ex-executive's charges, but found no truth in them.

The spokesman said he was not certain as to how company investigators resolved the existence of what the exec-

(Continued on A 4.)

Ex-Boeing executive 'took political trip'

(Continued from Page 1.)

utive says are documents — a trip report and expense voucher — indicating the company participated in the planning, and paid for, the trip.

The travel-expense report states the man's mission to New Hampshire was to work on various company business, such as "Asic Program, AACP and AWACS," but underneath is a notation:

"Real reason — Sen. Jackson trip for John Salter."

Five days of per diem, lodging and local mileage reimbursement totaled \$187; other "business expenses" came to \$135.

A report by the former executive, dated November 15, 1971, states another Boeing official "said he was interested in enlisting my aid in helping Senator Jackson in the New Hampshire primary (Jackson, eventually, decided not to run in that state).

"Within another hour," he said, he, the other official and a third Boeing executive "showed up in John Salter's office downtown, where I was briefed on Senator Jackson's plans. I was asked if I could go to New Hampshire and get a

list of Democrats and Independents for the senator's campaign team to use in soliciting support.

"I was a little apprehensive because of being an Independent leaning toward the Republican side and am almost devoid of political experience of that type.

"John Salter said their position, in effect, was 'What will we end up with if Nixon loses?' I hadn't considered that, but there was a rather nauseous immediate reaction, so I said I would be glad to do whatever I could."

A week later, he was in New Hampshire, the report states. "I discussed the situation with a lot of people and not only was able to arrange for what I believe should be an excellent list, but I also found some interesting points which I wanted to put in this report" — which he did, listing what appeared to be a weakness of candidate Senator Edmund Muskie, the strengths of Jackson ("... he may have a very real shot at it in 1976 if not 1972") and an endless supply of G.O.P. sympathizers ("It turned out that almost all of the people I talked to in the state were Republicans ... it may be a very good thing for the senator if he appealed to the Republicans in the state

on a 'what if?' basis to have two good candidates").

The former executive said his name also got back to "the man who brought Jackson into New Hampshire, an industrialist by the name of Norm Kreisman who has taken a year off to help the senator." The executive said he met with Kreisman and then took him to meet others who were helping the Boeing man prepare the list of Democrats for Jackson.

The man also has two letters, with Kreisman's letterhead, dated November and December, 1971. Addressed to the executive, one states:

"Dear ...

"I just came down from The Hill, where Scoop announced today. Looks like we're off and running (for the presidency).

"Let me thank you again for the great help you've been with your contacts, advice and list of names. After I see the people you have recommended, I'll give you a full report. Meanwhile, I'm telling all concerned how helpful you've been.

"Best regards, Norm."

John Salter, who was Jackson's administrative assistant 25 years and his almost-lifelong friend and political adviser, said he couldn't recall meeting the former executive.

"I don't know him from a bar of soap," Salter said yesterday from his offices at Pier 66 in Seattle.

"It sounds kinda like the old Scheyer case, which wasn't what it was thought to be."

He was referring to stories in April, 1972, over the discovery that Rod Scheyer, a Boeing employe, was campaigning for Jackson in Northern Wisconsin. Scheyer also had spent \$299.66 for Jackson advertisements.

Boeing at the time said Scheyer was not authorized to spend any of the company's money on the campaign, and that any work for the senator was not done on Boeing's behalf.

Jackson was chagrined by the episode, which his staff said was an attempt by The New York Times, which brought up the issue, to make Jackson appear a company candidate for the aerospace firm — "The senator from Boeing."

There is no indication in the report by the former executive that Jackson personally had any knowledge of the executive's apparent efforts in New Hampshire.

In the case of Scheyer, Salter said, "he was apparently one of those guys Norm Dicks helped organize. There were some in Florida, too, as I recall. Athletes. I think they were called Jocks for Jackson, or something," he said with a chuckle. Another Boeing employe was found involved in Jackson's campaign that year in Florida, but the company again said the employe was on his own.

Dicks, then administrative assistant for Senator Warren Magnuson and now 6th District congressman, could not be reached for comment yesterday.

Pete Bush, Boeing spokesman, said the company found the former executive's statements "without merit."

Bush suggested the outside review board, concerned with the issue of overseas payments, had further confirmed Boeing's conclusions by choosing not to investigate the claims.

The one-time executive, Bush said, "is just a disgruntled ex-employee."

The Seattle Times

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Monday, March 12, 1979

The Times' opinion and comment:

Disturbing issues in Boeing case

THE Boeing Co. is under investigation by the Justice Department and the Pentagon for possible national-security violations and obstruction of justice by several employees.

The facts are not all in, so it would be premature to jump to final conclusions.

Nonetheless, the matter raises disturbing questions about the arrangements involving the Defense Department and defense contractors. And the answers to those questions may contain some important lessons for the conduct of what used to be called — and the phrase still applies — the “military-industrial complex.”

To review the allegations briefly, The Times first reported in mid-February that several Boeing employees had lost their Pentagon security clearances over an incident involving handling of classified information without appropriate safeguards.

A Boeing spokesman first denied knowledge of the matter, then read a brief statement on the incident but refused to discuss it further, saying: “There’s no story here . . . It’s just an investigation, nothing more.”

On March 1, however, The Wall Street Journal in a front-page story reported that Boeing executives obtained information from a top-secret draft memorandum being prepared by the Pentagon for the White House, and transmitted a summary from Boeing’s Washington, D.C., office to Seattle by telecopier — over normal telephone lines routinely monitored by Soviet agents.

Moreover, The Journal said, Boeing executives conspired to cover up the unauthorized disclosure, fabricated an explanation, destroyed evidence, and otherwise tried to impede the investigation.

The Times’ Dean Katz, in a

series of follow-up stories, confirmed these allegations and described how a Boeing employee on leave to work in the Pentagon was indirectly responsible for providing Boeing people with access to a “bootleg” copy of the classified document. (Boeing spokesmen say The Times’ articles contained “serious inaccuracies,” but declined to specify them.)

Many veteran observers of the byzantine business-political relationships among the Pentagon, defense contractors, Congress and the White House assert that this sort of activity goes on all the time. They contend that the fierce competition among private companies for multimillion-dollar defense contracts makes it inevitable that some security violations will occur.

The only difference, they say, was that Boeing employees got caught and tried to cover up their actions.

If that is indeed the case, it should be a matter of grave concern for the federal government, the defense industry, and the public. There should be an immediate and thorough review of the policies and procedures for handling classified material, selecting new weapons systems, and awarding defense contracts.

The Boeing case may be a warning to all involved that it’s time to tighten things up. Boeing’s top management has pledged to do all it can to improve its safeguards, and plans to hold a series of seminars on security regulations.

The incident also may help stop the “revolving door” system whereby employees move back and forth between jobs in industry and government. In the Pentagon, the distinction between national and corporate interests is sometimes a little fuzzy.

14

Ex-Boeing official's reports rebutted

By RICK ANDERSON
and LOU CORSALETTI

Times staff reporters

An attorney for a committee that reviewed Boeing's overseas payments differs with a former Boeing executive over why the federally ordered committee never got to hear the executive's version of how some money may have been "funneled" to foreign consultants.

The former executive says he was prepared to give details of a questionable "overseas" payment but concluded the committee did not want to hear about it.

Albert J. Brown of San Francisco, counsel for the Boeing Special Review Committee, contends he asked the former executive for information but never received it.

Brown says a letter he wrote to the former Boeing employee, dated January 24, 1979, was his request for the information. In part, the letter states:

"If you have some new or additional material you wish to call to the committee's attention, I suggest you put it in writing."

The former executive, who has requested anonymity, said he did not respond because it appeared the committee already had completed its review process and because it had decided not to investigate further allegations he had made.

BROWN AND the former executive agree that the ex-Boeing official had supplied information on reputed company indiscretions, including a contention by the man that he had worked on behalf of Boeing in the 1972 presidential campaign of Senator Henry Jackson.

Boeing officials and Brown say the contention that the executive worked for Jackson is untrue.

An important Jackson supporter, Norman Krashinsky, an industrialist, told The Times last week that he remembers working with the then-Boeing executive during Jackson's 1971 primary preparation in New Hampshire.

Brown's January, 1979, letter to the former executive states that Brown "reported in substance what you have told me to the committee. The committee has considered this, and does not believe at this time that any further investigation is required by it."

The former executive, who said he gave the previous allegations to the attorney in hopes of obtaining an audience before the full committee, decided he had lost that chance after it only "considered" the information. He said he felt the information showed the company could have violated federal election law.

(The Federal Elections Commission in Washington, D.C., says it is unable to decide if any laws may have been violated unless it has a formal complaint before it.)

Panel lawyer rebuts ex-Boeing man

Continued from Page 1.)

Brown sent the letter. The executive said his feeling was based on the fact that seven days later (February 5), the committee's lengthy final report was released.

The report, in part, concluded: "(Boeing) company's (self) investigations were reasonably complete, and no further investigation is required."

The committee, composed of five of Boeing's outside board members, was established last year as part of a federal court order consented to by Boeing and approved by the Securities and Exchange Commission.

The S.E.C. contended Boeing failed to properly disclose information on \$52 million in overpayments, charging the company engaged in an undisclosed "scheme of business . . . in violation of the Securities Law." The report points out that the committee did not allege acts of bribery.

While neither admitting nor denying allegations, the committee consented to a federal injunction precluding Boeing from engaging in any such questionable practices in the future.

The consent agreement also set up a review of Boeing's investigation beginning in 1975) into the payments, and established the oversight committee of three outside board members living out of state.

The three — William Batten, chairman of the New York Stock Exchange; David Packard, chairman of Hewlett-Packard, Palo Alto, Calif., and H. R. Laynes, board chairman of Standard Oil Co. of California — were instructed by the order to select outside counsel with no connection to the company.

The committee selected Brown and his firm, Pillsbury, Madison & Sutcliffe, is also legal counsel for Standard Oil Co. of California. The court order says the counsel's first meeting had to meet S.E.C.

BROWN SAID he met with the Boeing executive "several times" since last November to discuss information the ex-Boeing man wanted to give the committee.

They had lengthy conversations. Brown said in a telephone interview last week, "and he kept

saying this, what was going on, but he never would, or could, prove anything.

"He made a number of statements to me, and I reported them to the committee. We investigated them to the best of our ability — we didn't have subpoena power, or anything — and we couldn't find any substance to them."

"He spent a hell of a lot of time telling me what was wrong with the Boeing Aerospace Co. (the noncommercial division); about people, expense accounts, and he also said he would like to go in there as a consultant, he and another guy, and clean the place up."

"He told us lots of things that are not in (within) the charter of the committee."

Brown says that during one of their conversations, he asked the former executive if he knew how any of the money paid to overseas consultants on plane sales might have been improperly "funneled."

Later, Brown said, the former executive "called and left a message that he had information, so I wrote him a letter and said if he had any concrete evidence, put it in writing, and the committee would look into it."

The letter, in full, states:

"I am sorry that I have not been available to talk to you on the telephone; however, if I had talked to you I think I would have said about what I am now writing:

"I have reported in substance what you have told me to the committee. The committee has considered this, and does not believe at this time that any further investigation is required by it."

"If you have some new or addi-

tional material you wish to call to the committee's attention, I suggest you put it in writing. When you write, you should be very specific, avoid generalities and recite the evidence that is available to prove what you are saying. I suggest you write direct to the chairman of the committee, Mr. Packard."

The former executive says his offer as a consultant was "not based on capitalism, but as part of my seven-year endeavor to help straighten things out at Boeing."

A company spokesman characterizes the man as a "disgruntled ex-employee."

THE COMMITTEE'S final report, which officially marked the end of its assignment, says Brown touches on little new information that The Boeing Co. had not already disclosed to the public and shareholders as part of the S.E.C. settlement.

It did reveal, under "additional disclosures," that the company's Indonesian consultant, paid \$857,000 as part of an aircraft sale to a government agency, also was a consultant to that same agency.

The report also revealed that in Nigeria a government official requested that Boeing contract with a particular consultant who was subsequently given checks for \$1,000 and \$20,000. The \$20,000 check later was discovered to have been endorsed by both the consultant and the government official who had recommended him.

Brown and his staff, the report states, devoted in excess of 1,600 hours over five months to the investigation.

Said Brown: "It's the view of the board, and my view, that we could spend the rest of our lives investigating (unspecific) things like the (former executive's charges)."

Says the former executive: "I have names, dates, places. I'm still willing to reveal them."

17
Suspended, reassigned

Boeing punishes 5 after probe

by RICK ANDERSON
and LOU CORSALETTI
Times staff reporters

A Boeing Co. investigation has confirmed the "apparent" breach of national security involving company mishandling of top-secret defense documents last year, Boeing revealed yesterday.

The results of the investigation were reported in the company newspaper, Boeing News, and confirmed last night by Pete Bush, Boeing spokesman.

Five employees implicated in a 10-month-long Defense Department investigation into the apparent breach have been disciplined, the company stated.

The five, whose security clearances were lifted last month by the government, have been suspended, reassigned and, in some cases, have received substantial pay cuts, Boeing said.

A sixth employee was cleared by its investigation, the company stated.

The company investigation also found, confirming an earlier Pentagon probe, that several of the employees initially misled the government investigators and Boeing as well.

The Pentagon began its investigation in March, 1978, after discovering that top-secret informa-

tion on the MX missile program had reached Boeing's hands.

Government investigators revealed that some Boeing officials had been involved in improperly obtaining the secret data, then transmitting it by telecopier from Washington, D.C. to Boeing offices in Kent.

Intelligence experts said the transmission could have been intercepted by Soviet intelligence agents who, it is thought, regularly monitor some defense and corporate communications systems.

Two of the five disciplined employees, the Boeing paper reported, and Bush confirmed, have, on the advice of their attorneys, refused to testify or answer questions from either Boeing or government investigators.

Boeing has asked the Defense Department to reinstate the security clearance of the sixth employee, a secretary in the Washington office, who was cleared by the company investigation.

Of the remaining five, the government earlier identified four of them as Boeing executives.

They are Benjamin Plymale, Boeing Aerospace Co. vice president for marketing; William Jacaway, an assistant to Plymale; Charles Welling, Washington, office manager, and James O'Rourke, a marketing representative in Washington.

Bush would not disclose the names of others referred to in the Boeing paper's story.

The company did state it found no evidence of improper conduct by Robert W. Hager, a Boeing Aerospace vice president whose name was mentioned in Times reports based on the government's investigation.

Boeing officials say they are taking steps to enforce security within the company, including a memorandum from T.A. Wilson, Boeing chairman, to senior managers "demanding" adherence to security rules.

Defense officials earlier this month said Boeing had obtained top-secret information from a classified memo being prepared for President Carter.

The memo discussed whether the administration should build a new land-based intercontinental ballistic missile, the MX, or one of several less costly alternatives.

Boeing, the nation's fourth-largest defense contractor, has done some preliminary work on the MX.

The company yesterday said a summary of its investigation has been forwarded to the Defense Department, whose own investigation has been turned over to the Justice Department for possible action.

(Other details, A 14.)

SEATTLE TIMES - FRONT PAGE 3-23-79

A Canadian member of Parliament said he will continue to press for an investigation into fees paid to a Canadian agent by The Boeing Co. and to determine if the agent paid income taxes on the money.

Allan McKinnon, member of the Progressive Conservative Party and representative from Victoria, B.C., raised the question Wednesday in the House of Commons in Ottawa.

McKinnon is his party's defense critic to the opposition majority party, the Liberals. As such, his responsibility is to question any action taken or proposed by the Canadian Minister of Defense.

McKinnon asked Minister of Revenue Tony Abbott if his special investigative section has done, or is doing, an investigation into "the matter of admitted payment to a Canadian agent" by Boeing.

to the Canadian government and private airlines in the early 1970s. He said he is not satisfied with a Royal Canadian Mounted Police investigation which last year found no evidence of a crime.

McKinnon said his concern is whether the agent, whose identity has been protected under a court order sought by Boeing, has paid taxes on the money Boeing paid him.

McKinnon said he was not asking the minister to divulge names.

"But surely Canadians have the right to know if the taxation department sleuths are investigating this case, or if alternately the minister's department is doing nothing, or worse yet, if the case is embarrassing to the government and they are stonewalling it deliberately," McKinnon said.

Abbott responded:

He added that it was against Canadian law to divulge whether his department is conducting an "examination" of a citizen or corporation and that he could not disclose that information in the House of Commons.

Evidence of fees paid to the Canadian agent came to light last July in a report by the United States Securities and Exchange Commission, which outlined a complaint against The Boeing Co. regarding reported inadequate disclosure of payments made abroad in connection with sales of airplanes. The S.E.C. began the investigation into overseas payments in 1975.

Although payments made in several countries were described in detail, the Canadian sales were discussed only generally.

McKinnon also was critical of the "mutual

generally, the treaty stated that neither government would release information on the investigation without consent of both sides. Only law-enforcement agencies would have access to the information.

Some members of the House of Commons questioned the pact in 1977, McKinnon said. The government, however, would only state that it was necessary to ensure a better flow of security information between the two countries, he said.

Both McKinnon and G.W. Baldwin, another Progressive Conservative House member, called the pact a "coverup."

Baldwin further accused Ottawa and Washington, D.C., of placing a "lid" on parliamentary and judicial investigations.

Transmission exposed secret data to spy 'tap'

by RICK ANDERSON
and LOU CORSALETTI
Times staff reporters

There were no dark street corners, no cloak-and-dagger assignments, no sleazy bar girls dropping tiny pills into drinks. The jetmobile with seat ejector and tailgun presumably remained parked in a cave somewhere.

The kind of espionage trap the government says The Boeing Co. got itself into was not the stuff of popular fiction.

Were Ian Fleming or other spy novelists to try, they might find a touch of madness to it, a battle of moonbeams, a hopelessly diabolical scientist, perhaps, or a computer or two that goes clunk in the night.

But what supposedly ensnared Boeing, leading to what the Pentagon asserts was a breach of national security, is what intelligence agencies believe to be the serious, sophisticated network of nuclear-age espionage.

It is waged mostly in the silence of space — top secrets being plucked by governments from microwave transmissions, bounced off satellites, flashed to receivers and finally, spilled onto spinning magnetic tapes locked away be-

Boeing's case, and although six company employees had their security clearances lifted pending an investigation, no formal charge has been made against any of them.

The company's own investigation, completed last week, resulted in disciplinary action against five employees. The action included suspension, reassignment and, in some cases, reduction of pay.

Boeing said its investigation "confirmed the apparent breach of security" and that "mishandling" of sensitive material did take place.

IT WAS NOT, Pentagon officials suggest, simply an instance of the company apparently obtaining top-secret missile data through improper channels last March.

Boeing assertedly acquired the data, for planning and developmental reasons, from an Air Force lieutenant colonel who himself had supposedly been given the "bootlegged" data by a Boeing employee on loan to the Defense Department.

Air Force Brig. Gen. Guy Hecker said a week ago that Boeing, the nation's fourth-largest defense contractor, probably could have obtained the data through normal

missile in question, the MX, said contractors "have a right and a need to know what we're doing and the mechanism allows that flow of information."

But the situation was compounded, officials say, when the data — notes made from the top-secret documents — was sent from Boeing's Washington, D.C., offices to the offices of its non-commercial division, the Boeing Aerospace Co., across the nation in Kent.

The data did not travel the accustomed way — first-class, courier style, locked in a briefcase chained to the wrist of a security-cleared messenger.

Instead, Defense says, it was sent by telecopier computer, a telecommunications system that transmits and receives printed words and images.

In part, the secret data was sent over the normal telephone land network. Officials suggest this compromised the data by subjecting it to possible line-tap interception.

AT ONE OR more points, the transmission also became airborne.

Officials of the American Telephone & Telegraph Co. in New York could not be specific, but said a long-distance relay from

least one time, possibly more.

The transmission at that point becomes akin to a radio wave, taking flight from a microwave sender to a microwave dish hundreds of miles away.

Somewhere between these two points, intelligence experts say, foreign agents hone in.

Computers are used to intercept thousands of constant transmissions, detecting particular signals that — if voices are to be heard — then require a manual interception.

But, the experts say, easiest of all to tap is the telecopier relay.

While a computer can't "hear" a voice transmission, it can tap and record the message sent by another computer, in this case, the telecopier.

United States officials say foreign agents, principally those of the Soviet Union, regularly attempt to listen in to the calls of the government and business corporations of America, seeking both military and economic intelligence.

They assume, without apparent direct proof, such was done in the case of the Boeing transmission. At least the threat was there, they say.

Intelligence sources say the Russians have installed assorted

Francisco and Chicago, and even tap from afar in Cuba.

A.T. & T. LAST week said it has no evidence that such eavesdropping goes on. A spokesman said the government never has called to its attention a single instance of foreign agents tapping transmissions. "But," he said, "this is not to say it hasn't occurred."

Jim Moznette, of A.T. & T.'s subsidiary, Pacific Northwest Bell, said in Seattle that microwave interception requires equipment and expertise that, logically, only a government could assemble.

"There are millions and millions of conversations going on," said Moznette. "It's almost impossible to pull off. Now, when you tap into a cable or line, obviously that kind of thing goes on, and I'm speaking mainly about someone locally, for instance, tapping into someone else's line."

"We feel the microwave system is pretty safe in that respect. But, yes, a large government-type outfit or entity could, with a large investment in time and people and money, possibly bring it off."

Much of the government's knowledge of the espionage practices of foreigners actually comes from the United States spying on them. And what the Russians pre-

THE LITTLE-KNOWN (but \$1.2-billion budgeted) National Security Agency is reputed now to be Washington's single most important source of intelligence.

Its extraordinary snooping skills include having for years monitored, by satellite interception, the telephone conversations between the limousines of Soviet leaders and their Kremlin offices.

Intelligence officials distinguish between the Russian and American espionage systems by crowning the United States for its advancement in technology; the Soviet system remains predictably proletarian, requiring more men than machinery to function.

It does not, however, make Soviet agents any less of a threat.

"I'm not speaking strictly of the Boeing allegation," said Pacific Northwest Bell's Moznette, "but we've had a number of contacts and conversations over past years with the federal government about this kind of thing. We've done investigations, and we're concerned."

"We've not been able to determine it's happened. But this is not to say it didn't. Or that the Russians aren't doing it."

Said a Boeing official: "We don't have any proof it happened."

(18)

Inflation blamed for defense-contract overruns

TIMES 3-25 (Continued from Page 1.)

"naturally, they know it can be sold better if it is cheaper."

HE SAID THE military also tends to underestimate the original costs of building weapons systems because contractors will drive up the cost of the contract if they know there is a large contingency fund available.

Church acknowledged the result is that it "creates a worse perception" for the public about the job the Defense Department is doing in holding down costs.

Church said a recently completed preliminary study by the Rand Corp. showed that cost overruns on military programs have gone down from an average of 40 per cent in the 1960s to 20 per cent so far this decade.

In a letter sent recently to President Carter, six members of the United States Senate, including George McGovern, Mark Hatfield and William Proxmire, said there are very concerned about the massive growth in costs for military programs.

"Runaway costs characterize the entire defense procurement program," the senators said, adding that "something is very wrong with the manner in which the Department of Defense spends the taxpayers' money."

Senator Warren G. Magnuson, Washington Democrat and chairman of the Senate Appropriations Committee, said last week he, too, is concerned about the rapid rise in costs. He said his committee would "look carefully" at each future request by the Pentagon for additional funds to complete existing defense projects.

PROXMIRE AND the other senators based their letter to President Carter on the S.A.R. cost summary, put out quarterly for the benefit of Congress.

The document summarizes the costs of the major military programs and gives the general reasons for increases.

Most of the higher costs are attributed to inflation, scheduling changes, engineering modifications or quantity changes.

But only a small portion is blamed on contract cost overruns.

during an investigation by The Times, a substantial cost overrun on a major military project involving The Boeing Co. appeared in another category used to justify cost growth.

A Pentagon official, Lt. Col. James R. Patrick, told The Times the overrun — which totaled \$113.3 million — resulted from problems in integrating a highly sophisticated radar system into Boeing 707 airplanes being constructed for the Air Force's Airborne Warning and Control System (AWACS).

Boeing is the prime contractor on the project, Patrick said.

Instead of being classified as an overrun, the cost increase was categorized in the S.A.R. cost summary as a higher cost due to a "schedule" change.

Patrick, the Air Force program-element monitor for the AWACS program at the Pentagon, said the overrun, which occurred between 1974 and 1976, was classified as a schedule-change rather than a cost overrun because it delayed the production schedule for the aircraft.

He said that if an overrun can be classified into another category, such as scheduling, it is not reflected in the cost summary as an overrun.

In fact, the cost summary indicated that the AWACS program had an under-run of \$2.2 million.

THE PRESENT estimated completion cost of the AWACS program is 54 per cent above the original estimate made by the Pentagon in 1970. Exclusive of additional funds to cover inflation, costs on the AWACS program are estimated to rise 22 per cent.

Originally, the Pentagon figured it would cost \$2.6 billion to build 42 of the AWACS planes (including a \$510 million "projected escalation" allowance), which were designed to detect low-flying enemy planes and to serve as flying defense command and control centers.

The present estimate by the Pentagon is that 34 of the planes will cost \$4.1 billion to complete.

Originally, the planes were to have cost \$63.4 million each, but they now are estimated to cost nearly double that — more than \$122 million each.

Patrick said most of the \$1.5 billion increase was attributed in the S.A.R.

and inflation because of congressional delays in authorizing spending for the AWACS according to the schedule originally planned by Boeing and the Pentagon.

But Patrick confirmed that apart from the cost increase attributed to the schedule was the cost overrun stemming from the radar problem.

Patrick said that although the overrun totaled \$113.3 million, only \$68 million of the overrun was reflected in the cost summary submitted to Congress, because Boeing and Westinghouse, the subcontractor which designed the radar for Boeing, paid the rest of the unanticipated higher cost.

PATRICK SAID Boeing absorbed about \$17 million of the overrun, Westinghouse absorbed \$28.3 million, while the taxpayers were stuck with the rest — \$68 million.

Maj. Gen. George Rutter, manager of the AWACS program at the Air Force's Electronics Systems Division at Hanscom Air Force Base, Mass., confirmed that the cost overrun occurred.

Patrick said the overrun was due to Westinghouse "underestimating the technical difficulties" of integrating the radar system into the Boeing 707 airframe used for the AWACS planes.

Asked whose responsibility the overrun was, Patrick said: "The overall responsibility rests with Boeing. The individual responsibility rests with Westinghouse. I guess you could say it was Boeing's responsibility because it was the integrating contractor."

Another major Boeing defense project designed for the Air Force, the E-4 Advanced Airborne Command post, is another instance in which costs have risen dramatically.

In 1974, the Pentagon estimated it would cost \$484.3 million (including a \$41.4 million projected escalation allowance) to build seven of the planes, designed to serve as national emergency command posts in the event of war. The estimate now is that only four of the planes will cost \$482 million.

The program, according to the S.A.R. cost summary, has sustained cost-growth increases of 185 per cent (adjusted for quantity) including

mate. The increase was one of the highest for a military project reported on the cost summary of major weapons systems.

EXCLUDING INFLATION, the cost of the E-4's has gone up 66 per cent. The higher costs were split about evenly between the category defined as "schedule" and the category defined as "estimating" changes. Some of the increase also was attributed to engineering changes, although none was blamed on cost overruns.

The E-4 planes, according to a General Accounting office report, originally were estimated to cost \$69.2 million each, but will now cost more than \$120 million each, based on latest estimates.

A Boeing spokesman, Pete Bush, said he could not comment on the cost increases or the reasons for them on either the AWACS or the E-4 program because Boeing's response would have to await a lengthy Defense Department approval process. He said there also were instances of cost underruns but he couldn't comment on them for the same reasons.

However, Lt. Col. Eugene Larson, Air Force program-element monitor for the E-4 project at the Pentagon, told The Times last week that "there was a very substantial error in estimating what the (E-4) program would (cost)" by both Boeing and military officials.

Larson said he did not know exactly how much of the higher cost was attributed to the "error in estimating," although the cost-summary document showed that the category defined as "estimating" contained an \$85 million cost increase.

"It wasn't one specific item" that drove up the cost, said Larson. "It was the entire concept of the plane and the integration of both newly developed and government-furnished equipment" installed in the plane.

LARSON SAID the Defense Department's original contract with Boeing was renegotiated because of the higher costs.

Efforts to get more detailed information on the reasons for the increases

In summarizing the E-4 program problems, Larson said: "Boeing had some very red faces. I know there were a lot of problems."

Following a subcommittee hearing last week on the Air Force's budget request for next year, Lt. Gen. Thomas Stafford, the former astronaut who now is deputy chief of staff for research, development and acquisition, said he was not familiar with the cost increases on either the AWACS or E-4 program.

A Pentagon budget official, disagreeing with Church on the matter, said that in some cases the Defense Department has asked Congress for more money, than a contractor estimates it will cost to complete a program. That way, if there are overruns, the Pentagon does not have to face the embarrassment of having to come back to Congress and ask for more money, said the official, who asked not be identified.

The officials said that kind of budgeting practice may not be as forthright as it should be, but it is "realistic."

Senator Magnuson said his committee staff has become "very conscious" of the substantial cost growth in military programs over the past few years.

He said the Pentagon has "a peculiar internal financing system that may not always reflect the true costs of military programs."

In some cases, Magnuson said, the Defense Department may be using surplus money in its budget as "a cushion" to protect itself in the event of cost overruns, thereby avoiding having to ask Congress for additional money.

"I think they (Pentagon officials) are playing games with us by not specifying what might be an overrun and what might not be," said Magnuson.

Magnuson said he isn't sure to what extent the Appropriations Committee can cut overall cost growth, but he said his committee can try to get a handle on cost overruns and put pressure on the Pentagon "to be more honest with us."

Magnuson said he was "glad" The Times was examining the large growth in costs.

"Although we knew about this, there never has been any specific problem

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Boeing jet sale in Netherlands under probe

TIMES
3/27

by RICK ANDERSON
and LOU CORSALETTI
Times staff reporters

The Securities and Exchange Commission's renewed look at some Boeing Co. overseas payments has included a review of a \$50,000 payment made in connection with a 1973 jetliner sale in The Netherlands, government and industry officials say.

The S.E.C. also has studied an asserted \$5,000 money "funneling" incident in Europe.

Both Boeing and its federally ordered special review committee, represented by an S.E.C.-designated counsel, Albert Brown of San Francisco, say there has been no new evidence to disprove earlier findings of no wrongdoing.

Although the asserted-money-funneling review apparently has been completed, The Netherlands sale still is being studied.

Brown said he only recently had heard about a Boeing overseas salesman who says he set up The Netherlands transaction.

The salesman told The Times in an interview that he helped arrange a \$50,000 payment in connection with the sale of a Boeing 737 to Transavia Holland, a Dutch charter line.

The salesman said the payment was requested by an official of the airline and was to be paid to the son of an Amsterdam bank president, through a Swiss bank account.

The son then would arrange financing of the \$6 million sale through his father's bank, the salesman said.

"The (airline official) said he could persuade the son to obtain the financing if the son was given the money," the salesman said.

LATER, AFTER the sale was completed, the salesman said the airline official told him that the \$50,000 payment was made to the numbered Swiss account.

Although the salesman characterized the payment as questionable, Brown said previous investigation has shown it to be proper.

Brown said money was paid to the son as a consultant to arrange the financing through his father's bank.

He said Boeing, airline and other personnel were questioned about the payment, and all denied

any improprieties.

The Boeing Co., in a statement released last week, said:

"The facts of that transaction long have been known by the S.E.C., they were reviewed by the special review committee and the conclusion reached was that there was no evidence of a payoff, kick-back or any other improper payments in connection with the transaction."

The salesman said he has never been interviewed by Boeing, S.E.C. or any other agencies on the details of the sale he arranged.

He said he is willing to give those details to the S.E.C.

Sigfried Schoedel, S.E.C. attorney in Washington, D.C., said he was interested in talking with the salesman.

Brown, whose committee was established as part of a Boeing-S.E.C. court agreement last year to review the company's overseas payments, also expressed interest in talking with the salesman.

"Our records indicate a fee was paid for arranging the financing," Brown said, "and that the fee went to a Swiss account. That, by itself, is not illegal."

PAYMENTS TO consultants who arranged financing were questioned as part of the S.E.C.'s original charge that Boeing failed to properly disclose details of \$52 million in overseas payments.

Brown said his committee had found nothing illegal in any of the financial-consulting deals they reviewed. He said he still was studying the "funneling" accusation, but "all the people named deny it" and he has no more new evidence to pursue.

Brown late last week said he was preparing a report on the latest review for the S.E.C. in Washington.

Officially, his review committee, composed of three Boeing Co. board members, completed its work in February with publication of its final report, stating no further investigation of the company was necessary.

"Obviously," Brown said last week, "you can't say we've closed up shop yet, since I'm still looking at these other things." The S.E.C. in Washington said it was in the process of "reviewing the review" of the committee.

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TIMES FRONT PAGE 4/5/79

2 Japanese indicted over plane sales

by RICK ANDERSON
Times staff reporter

Two executives of a Tokyo consulting agency representing American aerospace firms, including The Boeing Co. of Seattle, were indicted yesterday for foreign-currency violations, the Japanese government announced.

There were conflicting reports out of Tokyo as to the source of the money the government says was covertly and illegally transferred into Japan from the United States.

The Associated Press said the two executives of Nissho-Iwai Trading Co. were charged with illegally shifting \$300,000 to Tokyo from a California bank, where the money was kept under a fictitious name.

The \$300,000 was said to be part of a \$1.05 million "special commission" received from Boeing, the A.P. reported.

United Press International in Tokyo said the executives were

indicted on charges they tried to cover up payment of a \$1.05 million commission given by McDonnell Douglas in 1976.

Nissho-Iwai, one of Japan's major trading firms, represents Boeing, Douglas and the Grumman Corp. as a sales agent in the Far East.

A Boeing Co. spokesman in Seattle today said the company was not directly involved in the charges.

"Japanese authorities are aware Boeing is no more than a bystander in this," spokesman Pete Bush said.

The indictments, part of a renewed investigation into possible political payoffs that, in past years, rocked the country and toppled a government, came two days after the arrest of another Nissho-Iwai official who was linked with a \$3.6 million Boeing commission.

That official, Hachiro Kaifu, a senior executive, was held in con-

(Continued on A 11.)

2 indicted in Japan over plane payments

(Continued from Page 1.)

nection with a reported government investigation into possible tax evasion involving the commission paid over a period of years for a \$66 million sale to Korean Air Lines.

A Japanese newspaper reported the government was investigating the possibility that a letter from a Boeing Co. executive, R.W. (Dick) Welch, written in January, 1977, to Kaifu, may have been an attempt to establish makeshift evidence to avoid paying taxes on the \$3.6 million.

There were indications that the money, which Boeing earlier said had gone to the consulting firm to be given to the Korean airline, instead stayed in Japan and was not declared for tax purposes, the government said.

The Welch-to-Kaifu letter stated the payments were destined for points outside Japan, and apparently thus not taxable.

Boeing, in its report to stockholders last year on that and other overseas payments that had been questioned by the Securities and Exchange Commission, gave no reason for giving Korean Air Lines \$3.6 million after the private line had just bought a number of 707s and 747s from Boeing.

Nissho-Iwai earlier last month contended it did forward the payment, calling it a "rebate," saying it was given back to the Korean airline to "ensure" the Boeing sale.

That payment was not mentioned in connection with the indictment yesterday of Shoichi Yamaoka, head of Nissho-Iwai Co.'s aircraft department, and his deputy, Jutiro Imamura.

The Boeing payment came to light after the government in January began a new look into possible political payments because of disclosures by the Grumman Corp.

When Nissho-Iwai had difficulty in accounting for the Grumman money, investigators turned to the Welch letter, which had been written to satisfy the S.E.C. investigation.

The Associated Press said a Japanese newspaper, the Mainichi, gave four reasons investigators were reportedly suspicious of the letter as well as a consulting agreement receipt:

— Both documents appeared to have been made after the consulting agreement was signed, and the letter and receipt appear to have been made at the same time.

— The Welch-Kaifu exchange of letter and receipt accounted for a total of \$3,732,378, but the money the S.E.C. found in its investigation came to \$3,628,500, leaving \$103,878 unaccounted for.

(In its disclosure report to stockholders as required by a federal-court settlement with the S.E.C. last year, Boeing listed the payment as \$3.6 million to the consulting firm.)

— Nissho-Iwai said it made the payments — the airline rebated,

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- Nissho-Iwai said it made the payments — the airline rebates, apparently — to a person identified only as Mary Lee, nationality unknown.

- Nissho-Iwai's accountant found the exchange of letter and receipt suspicious and began an its own investigation at the time.

Japanese officials in the past have looked into Boeing overseas payments, finding no wrongdoing.

A government official in 1977 estimated Boeing's "questionable" transactions in Japan at \$16.7 million, and the country's transport minister once said Boeing had contributed the difference on a sales-price cut to some Japanese politicians.

Japanese tax officials also had investigated a reported \$547,000 payment from Boeing to All Nippon Airways, which the airline apparently failed to report for tax purposes. Boeing had said the money was for routine advertising and promotion costs in connection with a plane sale.

Plane-sale probe turns to politicians

TIMES 4-7-79

by RICK ANDERSON
Times staff reporter

Japanese authorities yesterday were reported to be investigating the possibility that a Tokyo sales agency gave parts of a newly revealed \$1.5 million Boeing Co. commission to Japanese politicians.

There was no indication by authorities that The Boeing Co. had any direct knowledge of or participation in the suspected political payoff by its Far East sales agency, Nissho-Iwai Trading Co.

Boeing previously has denied making any illegal overseas payments and said it could not be responsible for how its commissions were spent by its consultants. A Boeing spokesman says the Seattle aerospace company is just "a bystander" in the Tokyo investigations.

Japanese authorities have arrested or indicted three officials of Nissho-Iwai, which also is sales agent for Grumman and McDonnell-Douglas.

One of the arrests was an-

nounced in connection with a tax investigation over a \$3.6 million commission paid by Boeing to Nissho-Iwai as part of a \$66 million sale. Nissho-Iwai helped arrange with Korean Air Lines.

United Press International in Tokyo yesterday said the real purpose of the arrest was to allow authorities the opportunity to question the trading-company executives.

Another Nissho-Iwai official plunged to his death earlier this year hours before he was to appear before a parliamentary committee investigating the payments.

Another executive appeared before the committee, but refused to testify.

The committee and Japanese prosecutors are trying to find out if the country has a major scandal akin to the 1976 Lockheed bribery revelations that resulted in the arrest, and current trial, of former Prime Minister Kakuei Tanaka, accused of receiving \$1.5 million in payoffs.

The present investigation is focusing on Nissho-Iwai, which, according to a spokesman in the company's Seattle office, is Japan's sixth-largest trading company, has about 150 offices around the world handling imports and exports and deals in almost "every kind of commodity imaginable." A major export the firm handles here is logs, the spokesman said.

U.P.I. in Tokyo says investigators are looking not only at the earlier-reported \$3.6 million Boeing commission to Nissho-Iwai, but also at a \$1.5 million commission given on the sale of seven 747SR superjets to Japan Air Lines.

Authorities said the trading company did not properly account for the money in its books and kept \$850,000 under a fictitious name in a Los Angeles bank account.

The money was withdrawn from the bank in 1976, but officials in Tokyo have not been able to determine where \$470,000 of it has gone.

Nissho-Iwai said the money was spent in the Middle East and Indonesia, but investigators have said they doubt the company's story.

Authorities say the trading house also has failed to adequately account for some of the \$2.38 million it received from McDonnell-Douglas as reimbursement for "office expenses." The Associated Press previously reported erroneously that the Grumman Aircraft Corp. was the alleged source of the \$2.38 million.

And, U.P.I. said, investigative sources said Nissho-Iwai was suspected of being involved in payoffs to Japanese politicians in connection with its business on behalf of Grumman.

The three Nissho-Iwai executives are being held in Kosuge Detention House in northeast Tokyo, undergoing daily questioning that often lasts from morning until night. No political figures so far have been taken into custody.

The Nissho-Iwai spokesman in Seattle said he was not familiar enough with the Japanese case to comment on it.

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'Fraud theory' in Boeing probe

by RICK ANDERSON
Times staff reporter

Combining the resources of a grand jury, foreign police, international agencies and world courts to unearth details of The Boeing Co.'s overseas payments, the United States government is attempting to develop what officials privately term a "fraud theory" against the aerospace firm.

Boeing, which in earlier civil-court settlements with federal regulatory agencies, neither admitted nor denied making illegal foreign payments, now faces a persistent Department of Justice task-force investigation into possible criminal violations over the circumstances of the multi-million-dollar payments.

The Boeing Co. has resolutely contended that none of its overseas payments in the 1970s was illegal, and points to its unique standing among dozens of American firms whose payments have been questioned by authorities.

"We are one of the very few firms which has contended it hasn't made any illegal overseas payments," says a company spokesman. "We refuse to concede that any of our commission payments were illegal."

A Justice official, without elaboration, confirmed the "fraud theory."

Another, nongovernmental, attorney with direct knowledge of the case, who has talked to witnesses and seen documents subpoenaed by the Washington, D.C., grand jury, told The Times the "fraud theory" is based on several contentions held by the Justice Department.

Simply put, the attorney said, if money was paid to officials through hidden arrangements to influence plane sales improperly, it could constitute fraud.

The legal theory, the attorney said, would not require emphatic examples of bribery or kick-back, but rather a showing that questionable transactions defrauded people or nations of the honest services of their officials.

ANOTHER FIGURE familiar with the "fraud theory" says it includes a more direct "conspiracy" angle, as evidenced last week with news of the government's attempt to track a \$3.6 million Boeing commission through Europe and the Middle East.

Assistance by foreign nations . . . is playing an important role in the Justice Department's task-force probe of overseas payments . . .

try's reputation, mailbox companies are set up by foreign businessmen or firms to serve frequently as a front for questionable deals or evading taxes. Some companies have been found to consist of nothing more than a nameplate and a letterbox to pass on mail.

Last week the little nation proposed new laws for stricter control of the companies. While all are legally registered, no lists have been published; even their number is a mystery. Some residents say there are more companies than there are Liechtensteiners, who number 24,000.

IN A REPORT the Securities and Exchange Commission required it to make to shareholders last year, Boeing said it was assured by the Middle East Airline official that the \$3.6 million did not benefit any airline employees. But Boeing could not say to whom the money actually went.

"The beneficial owner or owners of the Liechtenstein corporation were not then and are not now known to the company," Boeing said.

The Seattle company gave no reason why it was "necessary" to make the \$3.6 million payment, or deposit it in a numbered account destined for persons unknown.

Today, however, the government apparently is trying to answer those questions in Switzerland, where last week a federal Supreme Court ruled a Swiss bank had to divulge information regarding account No. 188392.

It was reportedly to this account, at the Swiss Bank Corp., that the \$3.6 million flowed, in and out, in 1974.

Bank information, now being screened by a special Swiss committee before release, may aid investigators in their belief the money then went to a mailbox company called Resora, in Vaduz, Liechtenstein.

Authorities suspect that the payment arranged by the airline official — believed to be Assad Nassir, a director of Middle East Airlines —

Nineteen nations have signed mutual-assistance pacts with the United States to trade investigative information on the payments. Nine countries have signed up specifically to trade data on the Boeing transactions.

(A 1977 study reported that 288 American companies disclosed making nearly \$412 million in questionable overseas payments between 1970 and 1976. The Boeing Co. led the list, compiled by Charles E. Simon & Co., although Boeing insisted its \$70 million in payments on \$5.5 billion in sales involved nothing questionable.)

The information swapped internationally includes the names of some sales consultants whom Boeing had fought to keep a corporate secret. With the backing of then Secretary of State Henry Kissinger, who believed disclosure would not be in the national interest, Boeing obtained a court ruling that the foreign consultants' names were proprietary.

The information traded in the mutual-assistance agreements is publicly non-disclosable and to be used for investigative purposes only — but the names of some of the consultants have leaked out, in a roundabout way, through criminal charges made in other lands.

Acting at least in part on information supplied by the United States, three foreign nations have made accusations against nine public officials and middlemen of bribery and other illegal acts directly and indirectly related to Boeing sales.

THE COMPLAINTS, filed within the past five to eight months, do not include a tenth person investigated by a fourth nation, in 1977. That case has since resulted in freedom for the man, an airline official who Boeing admits was on a company retainer.

That official, Jose Antonio Pigna, an executive with Viasa, the national airlines of Venezuela, was accused in January, 1977, of collecting a

public official, and were advised he was neither."

The Venezuelan embassy in Washington, D.C., last week said Pigna was held, investigated and later released after lack of evidence to prosecute. "He is a free man, walking the streets of Caracas today," said an embassy official.

THE MOST RECENT case filed involving Boeing payments came last November when the Egyptian government indicted two former cabinet ministers and three top airline officials for bribery and negligence.

A government attorney in Cairo, Anwar Seli, said a man named Helmy Shams, one-time technical adviser to the national airlines, Egyptair, was accused of accepting \$125,000 in bribes from The Boeing Co.

The government said Shams received the money for issuing a misleading study that urged purchase of Boeing aircraft.

The trial of the men is now in recess.

Said Bush, Boeing's spokesman, last week: "We acknowledged well over a year ago that Shams was retained as a consultant, that he had held responsible government and airline posts — though, not as far as we could ascertain, at the times we retained him — that the agreements with him were legal and that no one knowledgeable concerning Middle East sales felt that having him as sales consultant was unusual."

The accusation, made in connection with a 1972 Boeing jetliner sale to Egypt, was made along with lesser complaints against two now-ex-government officials, Egyptair's former board chairman, and an ex-airline planning director.

The latter are in connection with loan arrangements made through the international financier, Kidder-Peabody & Co., for \$53 million at 8 per cent interest when, the government alleges, 5 per cent was available with a more favorable repayment schedule.

Boeing's spokesman said the complaints against those men have nothing directly to do with the company's sale — "all they did was arrange financing for the airline."

He added that "any contention (apparently by the government, in this case) that 5 per cent loans were available to Egypt for the purchase of Western equipment, disregarded the facts that were inescapable at the time . . ."

ments have been questioned by authorities.

"We are one of the very few firms which has contended it hasn't made any illegal overseas payments," says a company spokesman. "We refuse to concede that any of our commission payments were illegal."

A Justice official, without elaboration, confirmed the "fraud theory."

Another, nongovernmental, attorney with direct knowledge of the case, who has talked to witnesses and seen documents subpoenaed by the Washington, D.C., grand jury, told *The Times* the "fraud theory" is based on several contentions held by the Justice Department.

Simply put, the attorney said, if money was paid to officials through hidden arrangements to influence plane sales improperly, it could constitute fraud.

The legal theory, the attorney said, would not require emphatic examples of bribery or kick-back, but rather a showing that questionable transactions defrauded people or nations of the honest services of their officials.

ANOTHER FIGURE familiar with the "fraud theory" says it includes a more direct "conspiracy" angle, as evidenced last week with news of the government's attempt to track a \$3.6 million Boeing commission through Europe and the Middle East.

Boeing has admitted it was "advised" by an official of a Lebanon-based airline "that it would be necessary that a \$3.6 million commission be deposited in a Swiss bank account" in connection with what Boeing said was a \$101 million jetliner sale to the airline.

This was an apparent reference to what was announced as (including spare parts and supporting equipment) a \$120 million sale of three Boeing 747s to Middle East Airlines in 1974.

Boeing admitted the money was to be deposited in a numbered account and, upon receipt by the same Swiss bank of advance-sale payments from the company, the \$3.6 million then would be forwarded to what is known as a "mailbox company" in Liechtenstein, the storybook kingdom bordering Switzerland.

The tiny principality, ruled by Prince Franz Josef II, is the home of tens of thousands of such companies. They do not make mailboxes, but do receive some mail.

With a notoriety that has blemished the coun-

IN A REPORT the Securities and Exchange Commission required it to make to shareholders last year, Boeing said it was assured by the Middle East Airline official that the \$3.6 million did not benefit any airline employees. But Boeing could not say to whom the money actually went.

"The beneficial owner or owners of the Liechtenstein corporation were not then and are not now known to the company," Boeing said.

The Seattle company gave no reason why it was "necessary" to make the \$3.6 million payment, or deposit it in a numbered account destined for persons unknown.

Today, however, the government apparently is trying to answer those questions in Switzerland, where last week a federal Supreme Court ruled a Swiss bank had to divulge information regarding account No. 188392.

It was reportedly to this account, at the Swiss Bank Corp., that the \$3.6 million flowed, in and out, in 1974.

Bank information, now being screened by a special Swiss committee before release, may aid investigators in their belief the money then went to a mailbox company called Resora, in Vaduz, Liechtenstein.

Authorities suspect that the payment arranged by the airline official — believed to be

Asad Nasr, a director of Middle East Airlines — did in fact eventually reach airline employees or others involved in the 1974 Boeing sale, which in part was financed by the government-supported Export-Import Bank of the United States (called Eximbank).

American officials say the Eximbank financing would have been refused had the banking agency been aware of the payment.

The transaction, officials (quoted by the Associated Press) said from Switzerland, "amounted to conspiracy to defraud the United States."

THIS ASSISTANCE by foreign nations — in the Swiss case, brought about by an American-Swiss judicial treaty used to pry open the bank account — is playing an important role in the Justice Department's task-force probe of overseas payments by Boeing and as many as 40 other American corporations.

The information swapped internationally includes the names of some sales consultants whom Boeing had fought to keep a corporate secret. With the backing of then Secretary of State Henry Kissinger, who believed disclosure would not be in the national interest, Boeing obtained a court ruling that the foreign consultants' names were proprietary.

The information traded in the mutual-assistance agreements is publicly non-disclosable and to be used for investigative purposes only — but the names of some of the consultants have leaked out, in a roundabout way, through criminal charges made in other lands.

Acting at least in part on information supplied by the United States, three foreign nations have made accusations against nine public officials and middlemen of bribery and other illegal acts directly and indirectly related to Boeing sales.

THE COMPLAINTS, filed within the past five to eight months, do not include a tenth person investigated by a fourth nation, in 1977. That case has since resulted in freedom for the man, an airline official who Boeing admits was on a company retainer.

That official, Jose Antonio Pigna, an executive with Viasa, the national airlines of Venezuela, was accused in January, 1977, of collecting a \$500,000 bribe on the purchase of a Boeing 737 for the country's President.

A month before the accusation, Boeing had admitted it had retained Pigna as a sales consultant a year earlier, December, 1975. The company said its only sale to Venezuela was the 737 for executive use by its President, but didn't know if Pigna was involved in that sale, which was announced a month after Pigna was officially retained by Boeing.

Although Pigna was involved in Boeing's attempt to sell helicopters to the Venezuelan government, there was never any conflict of interest in that or any plane sale, Boeing reiterated last week.

"Because Mr. Pigna was an officer of an airline in which the government of Venezuela held an interest," said Pete Bush, head of Boeing's corporate public relations, "we sought legal opinion from competent Venezuelan counsel, as to whether he was a government employee or a

The trial of the men is now in recess.

Said Bush, Boeing's spokesman, last week: "We acknowledged well over a year ago that Shams was retained as a consultant, that he had held responsible government and airline posts — though, not as far as we could ascertain, at the times we retained him — that the agreements with him were legal and that no one knowledgeable concerning Middle East sales felt that having him as sales consultant was unusual."

The accusation, made in connection with a 1972 Boeing jetliner sale to Egypt, was made along with lesser complaints against two now-ex-government officials, Egyptair's former board chairman, and an ex-airline planning director.

The latter are in connection with loan arrangements made through the international financier, Kidder-Peabody & Co., for \$53 million at 8 per cent interest when, the government alleges, 5 per cent was available with a more favorable repayment schedule.

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He added that "any contention (apparently by the government, in this case) that 5-per cent loans were available to Egypt for the purchase of Western equipment, disregarded the facts that were inescapable at the time . . ."

TWO MONTHS before the Egyptian charges were announced, the government of The Sudan made a bribery accusation against a Boeing agent, based on information the country said it had received from the Justice Department.

In that case, announced in September, The Sudan named El Sir Abbas as the recipient of \$680,000 connected with a \$24 million Boeing sale. The Northeast Africa country says the agent deposited the money in a foreign bank account for himself and other Sudanese.

The nation's prosecutor general said the money was over and above the legal commission, and that depositing money in a foreign account was a violation of The Sudan's currency laws.

Apparently, the charges were made in connection with the 1973 sale of two Boeing 707

(Continued on A 23.)

Payment of \$3.6 million 'commission' studied

(Continued from A 22.)

transports to Sudan Airways, the national airline.

In its S.E.C. disclosure report last year, Boeing said it paid \$1.4 million in "fees" to a consultant in connection with sales in Sudan, Pakistan and another unnamed country.

The money, Boeing said, was paid to two Liechtenstein corporations designated by the consultant.

Boeing also revealed it executed two consulting agreements in a number of countries, including Sudan, on other sales.

"In certain instances, payments due were made to a bank account located outside the countries in which the consultant resided," Boeing reported. "In a limited number of cases, payments were made to bank accounts identified by number only."

"In one instance, the company paid a consultant by check, or assisted the consultant in converting a portion of the payment into bearer bank instruments (negotiable currency or paper)."

Boeing, asked last week for comment on the Sudan case said: "A prosecutor asked the judiciary to charge the individual — whom Boeing paid under two separate consulting agreements — with bribery and foreign-exchange violation. We don't know what disposition has been made of the prosecutor's request."

BEFORE THAT charge, in August last year, India investigated three citizens in connection with Boeing sales.

Kekoo Maneckji, named as Boeing's consultant in Bombay, was accused of an unspecified criminal violation the Indian government said was in part based on information received from

the United States Justice Department.

Two of Maneckji's relatives and their business operations also were involved in the accusations. The accusations were made in connection with Boeing sales to Indian Airlines.

Boeing, in its S.E.C. report, mentioned India as among the countries where consultants were in some cases paid through Swiss or Liechtenstein corporations.

Bush, Boeing's spokesman, last week said of Maneckji: "Although a complaint has been issued for a violation of foreign-exchange regulations, no formal charge has been filed. He is free and in the interim we have sold four 747's to India and are negotiating for additional sales."

Bush adds that, of all the accusations made around the world, only two have been for bribery involving Boeing agents, and no one has been convicted.

Specifically on the issue of payments to officials, Boeing said — in February, 1976, after it and the S.E.C. had begun investigations — that the company had made no payments to government officials.

Later, Boeing said officials were paid in "four or five instances."

This was later expanded to the company's "belief" that those officials who were paid were not in a position to influence sales.

A REVIEW OF the company's payment disclosures shows Boeing paid out \$37.1 million from 1971 through 1977 to public officials or political figures or their companies for assistance in overseas jet sales.

That figure is contained in 1978-79 reports issued from Boeing's investigation and review following settlement with the S.E.C., which had

questioned an estimated \$52 million in Boeing overseas payments.

Boeing, in its reports, actually disclosed \$54.9 million in payments, a new accounting shows.

Besides the \$37.1 million in "commissions" paid to public and political figures, an additional \$12.3 million went to persons unknown.

The unknowns include the anonymous recipient of the \$3.6 million paid through the Swiss bank and Liechtenstein on the Middle East Airlines sale.

The remainder was paid as part of a \$137 million sale in Egypt. In connection with that sale, the company said, "the company made payments of \$8.7 million to two Liechtenstein corporations."

"The company believed that such payments were financing fees necessary in order for the customer to receive the financing and that the ultimate recipients of these payments were the persons who arranged or provided the financing."

"However," Boeing admitted, "the company does not know the individuals who were responsible for arranging the financing."

Boeing, also on the Egypt sale, made a \$900,000 payment to another Liechtenstein corporation for the account of a businessman and public official from the United Arab Emirates, a small confederation of Mideast states.

"This payment," Boeing said, "was made to settle a dispute with this individual who claimed he was entitled to a commission on a portion of the sales for arranging the financing."

Boeing also paid \$5.5 million to middlemen, or consultants, it apparently could identify.

Included in that amount was a total of \$3.9 million given in apparent "rebates" to customers

who had just bought Boeing aircraft.

IN CONNECTION with \$3.6 million of that amount, Japanese officials are reported to be investigating a Boeing consulting agency in Tokyo for possible tax violations.

Japanese officials apparently believe the Nissho-Iwai Trading Co. did not declare the \$3.6 million as taxable, indicating they suspect the firm did not pass the "rebate" on to Korean Air Lines, which Boeing says was supposed to receive it as part of a \$66 million sale in 1973.

Boeing has not publicly given a reason for the apparent rebate, and in its S.E.C. report, without naming Nissho-Iwai or Korean Air Lines, stated only that an airline official "requested" the payment be made, and that it would go "for airline or airline-related purposes."

Japanese officials are also apparently inspecting a letter from a Boeing executive to one of now three Nissho-Iwai officials recently arrested or indicted.

The letter states that \$3.7 million, not \$3.6 million, was paid by Boeing to Nissho-Iwai. Officials have so far not explained the apparent \$100,000 difference.

Japanese authorities also say they think the letter and another document were used by the Japanese company as "makeshift" evidence to evade Japanese taxes on the payment.

Besides that investigation — which Boeing says it is only involved in as "a bystander" — and the Justice probe, the company still has not announced results of a long-going dispute with the Internal Revenue Service.

The I.R.S. has advised the company that some of its deducted overseas expenses would not be allowed but the company has not announced any figures.

I nose paintful plane-sale disclosures

by RICK ANDERSON

Times Staff Reporter

The public disclosure of private business was a most somber and reluctant undertaking for America's major aerospace firms this and other years.

Their reports to the Securities and Exchange Commission, to settle accusations of securities-law violations, were generally nameless, blameless articles of blunted revelation.

Yet, they were not without some fleeting moments of inspiration.

A "big man," for example, said an employee of the Grumman Corp., Bethpage, N.Y., was someone who carries a bag.

At the McDonnell Douglas Corp. of St. Louis, some of its overseas payments "simply conformed to local custom," which, on the other hand, "could be regarded as extortion" in the United States.

The Lockheed Corp. of Burbank, Calif., gave a "gift" to Prince Bernhard, a member of a Dutch royal family, for which Lockheed "expected no specific benefit or action." The "gift" was \$1 million, deposited in a Swiss bank account.

THE BOEING CO. of Seattle said it paid millions to persons unknown, sent money to consultants, relatives and numbered bank accounts, and noted that its only record of some consulting agreements were receipts, canceled checks, and bank-transfer instructions. It concluded, "Some of the transactions did not fully comply with company policies."

And at the Northrop Corp. of Los Angeles, a \$250,000 check was given to a Saudi Arabian general to testify "credibility" by watching his reaction to "this method of payment."

Apparently, the reaction was negative. The check was returned un cashed, a note was drawn for a middleman who, in turn, paid the officer.

In general, the American companies, whose overseas payments had been questioned by the S.E.C., settled with the government to avoid "protracted litigation," their disclosure statements say.

The companies neither admitted nor denied the S.E.C. charges; such settlements with regulatory agencies are commonly described as "not saying you did anything wrong in the past, and promising never to do it in the future."

Boeing, more so than the others, has insisted there was nothing improper about any of its overseas payments.

In its report to the S.E.C. last year, Boeing revealed as part of the settlement, \$54.9 million in 1971-77 payments based on just under \$1 billion in sales.

The amount of payments Boeing was required

money was paid by Boeing into Swiss and/or Liechtenstein accounts.

Specifically, the world's leading airplane builder listed seven companies in Liechtenstein receiving \$14.9 million and two Swiss banks receiving \$9.8 million. Both of these figures reflect a single \$3.6 million payment that went through both a Swiss bank and a Liechtenstein company.

Boeing, whose report was revealed in detail April 8 in The Times, said there were "several other" unspecified instances of Swiss-Liechtenstein payments those years.

The company apparently can identify the recipients of \$3.8 million of that \$21.1 million, but said it did not know the identities of those who received the remaining \$17.3 million passing through the European accounts.

The McDonnell Douglas Corp. in its November, 1978, disclosures, said that on sales of \$577.7

...simply conformed to local custom ...

million from 1969 through 1976, it made payments of around \$11 million, apparently not including \$1.8 million on separate Japanese sales, as accounting by The Times shows.

Of the \$11 million, \$2.35 million went to public officials or employees of airlines who bought planes. Another \$2.8 million possibly reached relatives of officials. Some other, unspecified millions may have gone to public or airline officials.

(Of Boeing's \$54.9 million, about \$2.1 million went to government-airline political figures, Boeing revealed.)

AT LEAST \$200,000 of Douglas' payments went to a Swiss bank for an airline official, and other money went to a senior government official in Africa via a Belgian and then a Zaire bank.

Said the company report:

"To management's knowledge, a (Douglas) employee initiated only one of the transactions... and it is management's belief that in most of the other transactions... (Douglas) simply conformed to local custom or to demands which under United States law could be regarded as extortion."

The Lockheed disclosures, which have taken several forms, include statements released last February. Earlier, without specifics, the company

"\$1.8 million believed to be for a high government official or his party; \$700,000 believed to be for a high customer official, and \$100,000 believed to be for six government or political party officials."

Numerous others were paid in the governments of Spain, Italy and other unnamed countries.

Lockheed also said an Italian journalist got up to \$20,000 for services unstated in the report.

At least several million dollars was put through Liechtenstein companies and Hong Kong and Singapore accounts.

In the latter case, in connection with sales to the Indonesian Air Force, Lockheed said it paid commissions of \$239,000 "to a Singapore numbered bank account purportedly for a fund for the benefit of widows and orphans of members of the Air Force."

There was, Lockheed added, "conflicting evidence as to the true beneficiaries of the payments."

GRUMMAN CORP., a principal manufacturer of warcraft, said in its report last January it paid \$18 million in commissions in recent years, not counting a \$24 million settlement it had to make with the Iranian government.

Grumman contracted through the United States Navy to sell Iran 80 F-14 fighter planes. Grumman also made an agreement with consultants to pay out a total of \$24 million in commissions on the sales.

But the Navy, which as middleman was selling the planes to Iran for the same price it was buying them from Grumman, told Grumman not to inflate the plane price to include the consultants' pay — and then to not pay any consulting fees.

Grumman, in 1973, began paying the consultants anyway. It had paid out \$4 million when Iran rejected the deal. The Iranians said Grumman had violated the country's law. It demanded Grumman pay Iran the \$24 million.

Grumman, faced with possibly jeopardizing its deal, settled by giving Iran \$24 million worth of spare parts for the jets. Grumman now faces claims for \$18 million by the angry consultants.

The company also reported it paid around \$2.5

'Kickback' language 'was ill-chosen'

million to airline or public officials or those related

not "try to get a 1 per cent kickback" from the Grumman sales representative.

The executive later explained "the language was ill-chosen" and "did not refer to any proposed improper payment of any kind."

The Grumman report, in comparison to most others issued by the American plane companies, is reasonably detailed.

But the champion of disclosure — names, dates, places, step-by-step investigations — is the Northrop report.

It is highly detailed, elaborate, 60 single-spaced pages, stating the Northrop self-investigation grew out of the Watergate special prosecutor's office charges in 1974 that two unlawful contributions of \$150,000 total had been made to the 1972 presidential campaign of Richard Nixon.

The report, which reveals that \$750,000 was paid to a Swiss attorney for work that the company could not prove was ever done, said that the former board chairman, Thomas V. Jones (who resigned in the wake of Watergate charges), paid the attorney because Jones "perceived" the attorney had enhanced Northrop's position in Europe.

AN ACCOUNTING from the report issued in July, 1973, shows \$17.8 million was paid in cash and apparent checks for overseas services in the 1960s and 70s.

Northrop, too, was the only aerospace firm to comment on the touchy subject of corporate morality — as opposed to legal responsibility — in connection with the overseas-payments question.

Inherent in the issue is the thought that in some parts of the world, such payments are a way of life — a spinoff of the ancient ginseng system where a customer's postal service was based on the amount of money the customer paid to the postman.

Too, there is the ordinary benefit to the company, and thus to shareholders, when such questionable payments are made. Costs are usually tucked into the price of the product, paid for by the purchaser. If the company benefits, the shareholders likewise are not likely to complain when presented with the next quarterly dividend report.

Yet, at Northrop, even if paying off made money, officials would not accept it as a way of doing business. It had nothing to do with law, and everything to do with corporate morality, they said.

The acquiescence by Northrop personnel in the assumption that commissions to government officials in the world make payments to government officials as a matter of course, they said, "was not limited to the Triad (payment to the Saudi Arabian general) situation."

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In its report to the S.E.C. last year, Boeing revealed as part of the settlement, \$54.9 million in 1971-77 payments based on just under \$1 billion in sales.

The amount of payments Boeing was required to reveal exceeded those disclosed by the other aerospace firms who settled with the S.E.C.

Boeing's own report also shows it, comparably, was the leader in paying commissions or payments that traveled through protected channels — such as Swiss bank accounts and Liechtenstein corporations.

The identities of Swiss bank-account holders and Liechtenstein "mailbox company" owners are not publicly available and usually legally unobtainable.

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other unspecified instances of Swiss-Liechtenstein payments those years.

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The Lockheed disclosures, which have taken several forms, include statements released last February. Earlier, without specifics, the company had admitted making up to \$38 million in questionable overseas payments. Some of those payments led to the toppling of Japan's government and indictment of ex-Prime Minister Kakuei Tanaka, now on trial accused of receiving \$1.5 million in illegal payments.

In its February report, Lockheed did not reveal enough figures to accurately achieve an accounting of total sales and commissions, but said that in connection with \$458 million in sales to Japan from 1970 through 1975, it paid about \$7 million in commissions.

The company said it paid a consulting company millions to apparently pass on to public officials

In the latter case, in connection with sales to the Indonesian Air Force, Lockheed said it paid commissions of \$239,000 "to a Singapore numbered bank account purportedly for a fund for the benefit of widows and orphans of members of the Air Force."

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million to airline or public officials or those related to them.

It listed \$4.6 million as passing through the Liechtenstein companies en route to recipients unknown.

In connection with the Iranian sale, the report says an employee of a Grumman subsidiary once described a retired Iranian colonel as a "bag man."

Adds the report:

"The employee has explained that he intended this term to refer to the diplomatic and military practice of transmitting confidential material by courier in a sealed pouch."

The report also reveals that a chief executive of the company told a public official that he should

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"The acquiescence by Northrop personnel in the assumption that commission agents in certain parts of the world make payments to government officials as a matter of course," they said, "was not limited to the Triad (payment to the Saudi Arabian general) situation."

"Such acquiescence in what was assumed to be acceptable business behavior in a foreign country reflected a belief by Northrop employees that such unlawful behavior was in the best interests of the country."

"The executive committee has concluded that this belief represented a serious error of judgment. It cannot be condoned."

"In particular," they concluded, "the executive committee is recommending reforms designed to assure that Northrop does not facilitate or condone the exercise of unlawful or improper influence on its behalf by independent representatives, whatever the prevailing morality or customs of the country involved."

TIMES - 4-22-79

Boeing employee denies espionage role

by RICK ANDERSON
Times staff reporter

It wasn't industrial espionage. It was industrial anti-espionage that year in Cocoa Beach, says a Boeing Co. employee.

Then, 1970, as today, the aerospace industry flourished along that stretch of Atlantic beachhead, the Eastern Florida coast. To the north is Cape Canaveral and the Kennedy Space Center; to the south is Patrick Air Force Base. Winged and rocket travel was and is Cocoa Beach's lifeblood.

A tiny piece of that highly competitive industry would later cause special attention to be focused on a boxy, two-story office building in the area.

The building sat back off the roadway, along the sun-baked business strip of Cocoa Beach. During that spring nine years ago, several small and large businesses leased space in the motel-style structure at 320 N. Atlantic Ave.

On the upper level were offices manned by planning and financial personnel of Pan American World Airways.

Directly below, in a single office, was a small business operated by a man and wife, the latter an employee of The Boeing Co. of Seattle.

It was, Boeing says today, a coincidence. It was not a case of industrial espionage, says the company, in expanded response to a previously published charge by a former Boeing executive.

The employee agrees. He says he told the former executive about work he did that year for Boeing in Florida, but the executive misunderstood him.

His mission, he says, was actually to do indus-

trial anti-espionage work for Boeing.

The man, an electronics expert, said he checked Boeing offices at the Cape for possible electronic taps or bugs put there covertly by competitors.

He says he also "hung around" union halls in the area, gathering information on union activities and reporting back to Boeing management.

"But I didn't spy on Pan Am," the employee said in an interview.

Pan Am, whose subsequent jetliner purchases would help Boeing out of a sales slump, was at the time engaged in competitive bidding with several other diversified aerospace firms — one of them Boeing.

AT STAKE in 1970 were two government contracts.

One, awarded in 1971, was for operation of the Eastern Test Range, the missile-flight area off the cape. Pan Am, which held the contract, successfully underbid Boeing, Trans World Airlines and others, to retain it.

The other major contract was a National Aeronautics and Space Administration job for installation and technical support services at Kennedy Space Center. That \$20 million contract was awarded in November, 1970, to Boeing. Among the losers was Pan Am.

Today, The Boeing Co. says its victory at the Cape nine years ago had nothing to do with its employee's leasing space below Pan Am offices.

The company says the employee had set up a short-lived import-export company, on his own, in the office on North Atlantic Avenue. The little

company closed after a couple of months, Boeing says.

A company investigation in 1977 showed there was no truth to the spying claim made by the former company executive, Boeing says.

The executive, whom the company labels a "disgruntled ex-employee," told Boeing officials in 1977 — and a federal court-ordered Boeing review committee late last year — that the employee had told him of the spying incident.

The committee's main purpose was to review Boeing's questioned overseas payments. It says it studied Boeing's own investigation of the charge, then decided not to pursue it further.

Boeing says the man leased the space at the time, saying other comparable space was unavailable. The fact that Pan Am was upstairs was coincidental, Boeing says.

In a statement issued by Pete Bush, company spokesman, Boeing declared: "Our investigation of charges regarding spying in Florida produced no evidence to support (the) allegation ... In this instance, he (the former executive) attributes statements to a Boeing employee that the employee says are untrue, and a reason for renting an office that the employee also emphatically rejects."

THE FORMER executive said the employee told him of the incident a few years later when the two were on a trip in South America.

The employee, in an interview, says he remembers the South American trip, but not that particular conversation. "I didn't tell him nothing like that," the employee said. "We (Boeing) didn't bug anyone, but we thought someone might bug us. That was my work, to stop that."

In Florida, the employee said, he and his wife rented the space below Pan Am because it was inexpensive, \$100 a month. "My wife was working the little business," he said, "importing alpaca material."

"I was working for Boeing. One of the things I would do was check out our offices for industrial espionage. I checked out a couple of them. Swept them. They were clean. I never found anything."

"Back then, it was suspected someone might try to bug you. Before that, even, it was going on all the time. Almost anyone could bug someone. You could, before they passed the law, go into any store and buy a bugging 'kit'."

His Florida work for Boeing, he said, included "finding out what was going on in the unions. I would just hang around the union halls and then report to my bosses on it." He would not elaborate. His Florida stay lasted only a "couple months," he added.

Boeing said its investigation of the Pan Am case included a review of company expense documents, and it could not find any record of the company paying costs of the lease or any other related expenses on North Atlantic Avenue.

Today, at Boeing, the incident is concluded. It goes into the book as part fiction, part coincidence.

Pan Am, says Bush, "is a long-time and valued Boeing customer and the suggestion that the company would have anything to do with spying on it is ludicrous."

There was, conversely, adds the electronics expert who did Boeing's "sweeping," no indication that any of Boeing's competitors spied on Boeing.

"We never found anything," said the employee. "But we, you know, had to look."

Boeing probe confirmed by Wall Street Journal

by RICK ANDERSON
Times staff reporter

The United States government is pursuing "fraud" and "conspiracy" charges against The Boeing Co., The Wall Street Journal said today, confirming a previous report in The Seattle Times.

Citing a 10-page legal brief released by authorities in Switzerland, The Journal said the brief asserted "that Boeing is under investigation in the United States for possible mail fraud, conspiracy and fraud against the government."

The Times April 8 reported the fraud- and conspiracy theories investigated by the Department of Justice.

It was learned the investigation is related directly to one or more legal agreements signed with the Export-Import Bank (Eximbank) of the United States.

In at least one instance, Boeing signed a sworn certificate with the bank, stating it hadn't paid commissions or fees except to regular sales agents.

Boeing made that statement in connection with the 1974 sale of \$120 million in jetliners to Middle East Airlines, which in part financed the planes through Eximbank.

In the 10-page brief that The Journal says Swiss authorities released apparently to the embarrassment of the United States — which preferred to keep its course of action secret — Boeing is accused of making "illicit payments" of \$3.6 million.

As previously reported, Boeing admitted it paid a \$3.6 million "commission" on the sale, but said it didn't know to whom the money went. The money, Boeing said, was paid through a numbered Swiss bank account to a mailbox company in Liechtenstein. Mailbox companies often serve as fronts to avoid taxes or disclosure of ownership, and sometimes consist of nothing more than a mail drop for forwarding postage.

The Justice Department, which obtained a Swiss court ruling to pry loose some information about the numbered (No. 188391) account at the Swiss Bank Corp. in Geneva, is apparently intent on tracking the money through Liechtenstein to its recipients.

Although Boeing has denied knowing who wound up with the

money, Justice officials say they think it was employees of the airline to whom the sale was made.

The apparent course is to prove the payment constituted fraud through bribery, as explained in the legal brief.

"The Export-Import Bank doesn't finance sales obtained through the payment of bribes. That would be contrary to its function, which is to promote American exports."

The brief adds: "If the buyer learns of the payment of such bribes, he may consider himself cheated and there is great risk that he will refuse in whole or in part to repay the Export-Import Bank."

Information obtained from the bank in Geneva is being screened by a committee for release to the United States.

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Government probing Boeing statements about plane sales

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(Continued from Page 1.)

count, then release it to a Liechtenstein corporation — where hidden, mail-drop companies flourish.

Boeing did not explain why it was "necessary" to pay the money, and, furthermore, said it did not know who received it.

That is in apparent conflict with the agreement Boeing signed with Ex-Im Bank to back the Mideast loan.

A COPY OF the seller's certificate reads, in part, that if any regular "commission" is to be paid, it must be: "... readily identifiable on our (Boeing's) books and records as to amount, purpose and recipient."

Boeing, in the July, 1978, S.E.C. report, referred to the \$3.6 million as a "payment," not "commission," but Ex-Im Bank regulations require that either must be previously disclosed and the recipient identified.

Said Boeing in its S.E.C. report, "The beneficial owner or owners of the Liechtenstein corporation (to which the \$3.6 million was destined) were not then and are not now known to the company."

Boeing said "the airline official who advised the company of the requirement (payment) has assured the company that the money did not benefit any airline employees and that no government approval of the purchase was necessary."

American authorities have since tried to find out who, exactly, received the money.

According to court records filed in Switzerland as part of the United States' successful attempt to pry loose some information about the Swiss bank account where Boeing deposited the money, the Justice Department contends the \$3.6 million constituted "illicit payments."

JUSTICE HAS indicated it thinks the man who arranged the payment was Asad Nasr, a director of Middle East Airlines, and that the money did in fact reach airline employees or others involved in the jet deal.

The Americans are hoping to use information the Swiss court ordered released on the bank account in question — account No. 188392 of the Swiss Bank Corp. of Geneva — to track the money into Liechtenstein, where it passed through a mailbox company called Resora, or Resora Anstalt.

Justice officials, in a 10-page brief to the Swiss court, contend Boeing made arrangements to pay the \$3.6 million May 15, 1974, three months before the actual sale (the Ex-Im Bank credit was established in August, 1974).

The government says Boeing signed a three-way agreement in Geneva with Swiss Bank Corp. and with Resora, depositing the \$3.6 million and setting up the terms for its transfer to Liechtenstein.

Information now being screened by a Swiss judicial committee will, Justice officials believe, help

provide a key to uncovering the money's post-Liechtenstein destination.

THE OTHER \$3.6 million, paid to Korean Air Lines, was given — in the words of Boeing's S.E.C. disclosure — "to a company consultant which the authorizing (Boeing) employees understood would be used by the airline or the owners of the airline for airline or airline-related purposes."

No reason was given for that payment, or a payment of \$82,000 which Boeing said also was made to the consultant, but destined "for the account of (an airline) employee" who had "requested" it.

Boeing's sales agent on the deal was Nissho-Iwai Trading Co. of Tokyo. As part of an investigation into this and other payments by other American aerospace firms, Japanese authorities have taken three Nissho-Iwai executives into custody for questioning.

A Nissho-Iwai spokesman has said that his company, at Boeing's request, forwarded the \$3.6 million to Korean Air Lines as a "rebate" to ensure the sale.

Boeing, in its sworn certification on the Korean sale, pledged to Ex-Im Bank that Boeing had not, and would not, "cause to be granted or paid ... any rebate."

A report carried in The Japan Times of March 1, 1979, quotes a spokesman for Nissho-Iwai as saying:

"... Nissho-Iwai American Co., Nissho's subsidiary in the United States, was asked by Boeing in 1973 to issue a \$2.7 million check to a Korean Air Lines agent on behalf of the U.S. company."

"The subsidiary complied with the request, the spokesman said."

"The U.S. aircraft maker assured Nissho-Iwai in a later letter that the Japanese company would not be inconvenienced in any way in connection with the check, the spokesman said."

Arthur J. Obester, business-development officer for Ex-Im Bank in Washington, D.C., confirmed the Justice Department has been looking through Ex-Im's files and that any legal violations would be handled through Justice action.

He said any resulting action would not harm existing or future credits of Ex-Im Bank customers.

"It's done on a case-by-case, loan-by-loan basis," Obester said.

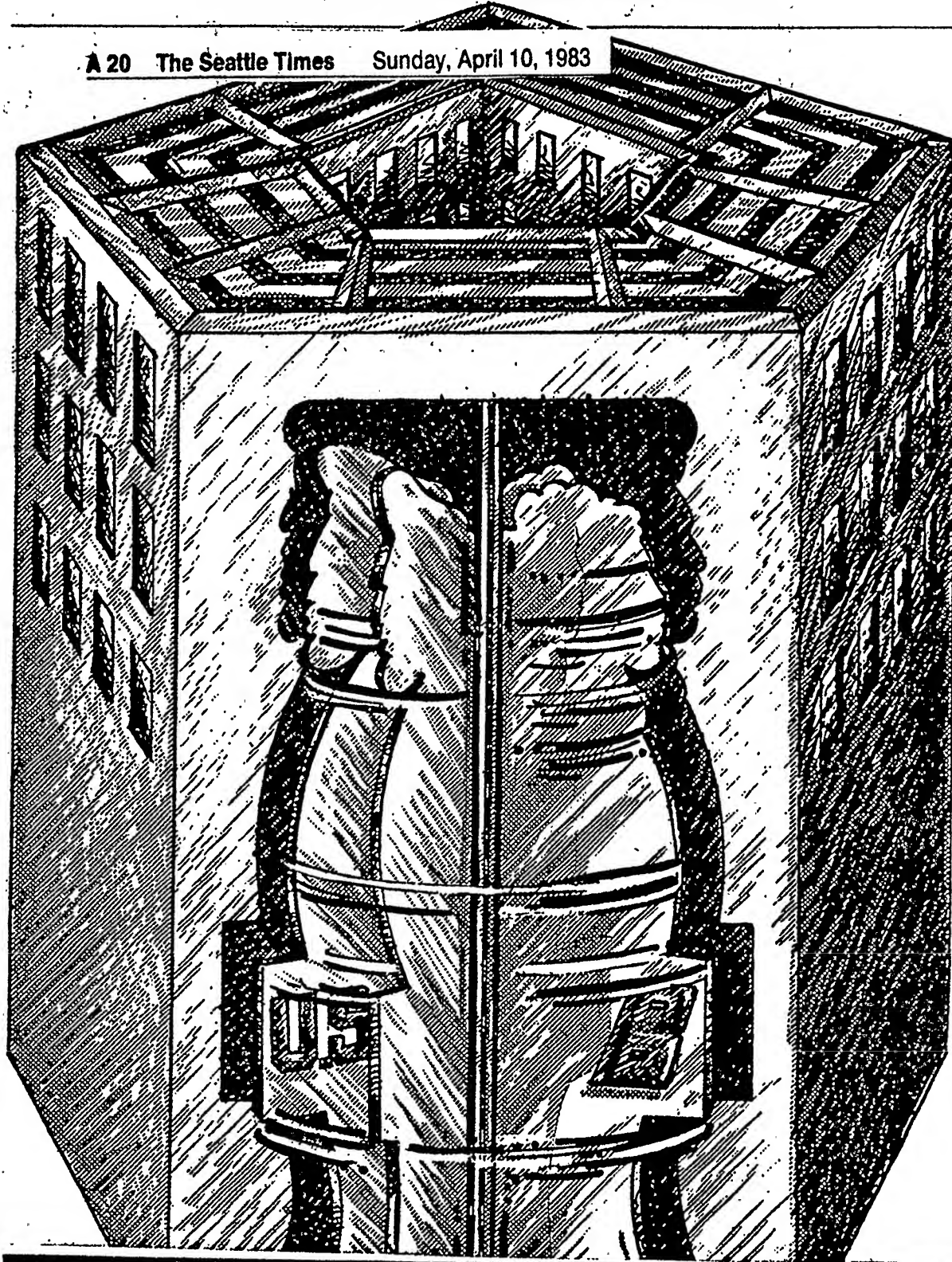
BOEING, ACCORDING to Ex-Im Bank's 1978 report, has \$112.4 million in sales credits pending by purchasers in 15 countries, financing through the bank.

The overseas nations have ordered 26 Boeing jets (eight 737s, 14 737s and four 747s), including an order for two 747s by All Nippon Airways of Japan.

Boeing's sales provide one of the major loan outlets for Ex-Im Bank, which helped support \$10.6 billion in United States exports last year. The bank was created in 1934 and established under present law in 1945 to further growth of American exports and lessen what is now a United States balance-of-trade deficit of about \$30 billion.

MILITARY-INDUSTRIAL COMPLEX

A 20 The Seattle Times Sunday, April 10, 1983



THE BOEING-PENTAGON REVOLVING DOOR

All in the family between Boeing, Uncle Sam

Switching jobs raises questions of propriety

by Ross Anderson
Times Washington bureau

WASHINGTON — When Dale Babione joined the Boeing Co. four years ago, he came with a wealth of Pentagon experience and contacts that could be assets to a big weapons contractor like Boeing.

It was a short move, no more than a five-minute subway ride from the Pentagon to Boeing's offices on the 20th floor of a steel and glass building in suburban Virginia. The trip can be made without setting foot out-of-doors.

As a deputy assistant secretary of defense for procurement, Babione had helped set Pentagon policy governing weapons contracts. Then he decided to switch to the private sector, and Boeing "made the best offer," he says.

At Boeing, Babione joined 54 colleagues who work the industry side of the multi-billion-dollar defense contracting business.

They are among more than 400 present or former Boeing employees who have moved at one time or another, in one direction or the other, between mid- to high-level defense-related jobs at Boeing and the Pentagon.

That relationship drew national attention recently when it was disclosed that federal authorities are investigating payment of \$400,000 in what Boeing called severance pay to

three former employees who have taken high-level jobs in the Reagan administration Pentagon.

The officials are Melvyn Paisley, assistant secretary of the Navy; T.K. Jones, deputy undersecretary of defense, and Herbert A. Reynolds, deputy director of the Defense Department's Office of Intelligence and Space Policy.

Boeing said it is cooperating with investigators, who apparently want to know whether such payments are customary to departing employees. The company and the former Boeing officials otherwise decline to comment publicly.

Observers say the severance payments are a new wrinkle in an old issue: how to monitor and control the potential conflicts of interest that could arise as high-level workers move between defense-related jobs in government and private industry.

Babione, for one, is rankled at the suggestion there could be a conflict of interest in his job change or that of his colleagues. "I don't get involved with marketing," he says. "I don't sell anything. I deal strictly with rule-making."

But rules, regulations and inside contacts often have as much to do with military contracts as actual salesmanship. This was demonstrated in 1978, when a former Boeing employee, working at the Pentagon, obtained a copy of a secret memo regarding the MX missile. He was able to give his former employer potentially valuable advance knowledge of a weapons system for which it planned to compete.

Babione, who was not with Boeing at that time, says his Pentagon experience was valuable for the same reason it is valuable to hundreds of other defense-related employees who go on to jobs with contractors. His grasp of Pentagon

procurement policy is an asset to Boeing or any other contractor which does business with the government, he says.

That is the most frequent argument both for and against what is sometimes called the "revolving door" between the upper ranks of the Pentagon and major weapons contractors like Lockheed, Northrup, General Dynamics and Boeing.

One recent study indicates that more than 2,000 military officers, executives, engineers and others made such moves between 1971 and 1979. Most are middle-aged officers who retire and finish out their careers with private contractors.

But many others — like Babione, Jones and Paisley — hold positions where their high-level contacts could be advantageous to a company.

Gordon Adams, a researcher and writer who specializes in defense contracting, says potential abuses of inside contacts are only part of the problem.

"The circular flow (of defense-related employees) creates a community of shared assumptions about policy issues and developments," Adams says.

The result, he suggests, is that major decisions about how to spend the nation's military budget often are made in a narrow, almost incestuous arena that excludes broader perspectives.

■ Boeing ranks about sixth in the size of its military contracts, but a clear No. 1 among defense contractors in the rate at which employees have hopped between the company and the Pentagon. **Issues, A 20.**

WASHINGTON, D.C. — They don't like the term or its implications. But they've all been through the revolving door:

— Frank Shrontz quit the Boeing Co. in 1973 to become assistant Air Force secretary, then assistant secretary of defense; today he is back at Boeing, a vice president for sales and marketing.

— James Beebe was a technical advisor on nuclear weapons in the Ford administration Pentagon before becoming a manager for the Boeing Military Airplane Co.

— Maj. Gen. Charles Kuyk commanded a military-airlift unit in California for five years; now he's a supervisor in "airlift and strategic systems" at Boeing.

— T.K. Jones, now a deputy undersecretary of defense, has revolved through the door three times in 11 years. Now he's back at the Pentagon, and federal investigators are looking into severance pay he and two other former Boeing executives received when they took Defense Department jobs in 1981.

The list goes on and on. In the past decade, more than 400 high-ranking officials have transferred from federal defense or space-related jobs to Boeing, or from Boeing to the government agencies. Among them are retired military pilots, computer programmers, physicists, engineers and technical writers.

Also among them are several executives directly involved in weapons contracts between Boeing and the Pentagon.

Federal records indicate that Boeing has hired more Defense Department employees than any other defense or space contractor.

The workers say it is because Boeing is the leading aerospace company, based in a livable part of the country — a powerful magnet for the military retirees who are the most frequent transferees.

Defense and space business has become increasingly important to Boeing as commercial-airplane sales have slumped. Boeing has a wide range of federal contracts — cruise missiles, AWACS airplanes, subcontracts for MX missiles, the space shuttle, B-1 bombers, upgrading of B-52s, Minuteman missiles and more.

In 1980, Boeing reported \$1.4 billion in U.S. military and space-related business. Commercial-airplane sales were more than five times as much, at \$7.6 billion.

By last year, military and space business had more than doubled to \$3.3 billion, while commercial sales dropped to \$5.1 billion.

More striking are the profit figures. Last year, Boeing reported \$16 million in profits from commercial-airplane sales, while military and space-related profits had quadrupled in two years to \$365 million.

As Boeing's weapons business grows in what is becoming a highly competitive field, the company's ties with the Pentagon become more critical, a trend dramatized by the rate at which it hires former Pentagon employees.

Between 1979 and 1981, there were 139 transfers between Boeing and defense or space-related agencies, according to Pentagon records. At the same time, Lockheed had 94 reported transfers, Northrop had 92, and McDonnell Douglas, 67.

Yet Boeing still ranks only about sixth in military and space contracting among the giant companies.



EVER since Dwight D. Eisenhower warned about the "military-industrial complex," government watchdogs have been concerned about the revolving door. They warn that Pentagon and big defense contractors like Boeing comprise a closed community that spends billions of dollars every year.

"To the insider, this intimacy seems to be technical and political knowledge that smooths the contracting process, insuring a more efficient defense of national security and the public good," says Gordon Adams, a private researcher and author of "The Iron Triangle," a 1981 book on the military-industrial complex.

"To the outsider, it suggests favoritism, a narrowing of perspective in which the private government interests converge in a single view that excludes a wider perspective."

That argument was dramatized five years ago when a Boeing lobbyist transmitted notes from a confidential Pentagon memo on the MX missile to Seattle. Pentagon authorities complained that the transmission violated national security, but the incident also raised questions about the way Boeing obtained the information on a potential multi-billion dollar missile contract.

According to Adams, and news reports at the time, the memo initially was made available to a former Boeing employee working at the Pentagon (He's now back at Boeing). Another key player was a Boeing vice president who happened to be a former assistant secretary of defense. Yet another was a former Boeing employee working for the House Armed Services Committee.

At the time, The Wall Street Journal quoted an unnamed defense official as saying, "This type of thing happens all the time" among job-hopping officials in the tightly knit circle of military contracting.

A SAMPLING of former Pentagon employees, said in telephone interviews that it was natural for them to move to jobs at defense contractors like Boeing. Federal programs generally allow retirees to supplement their pensions with work in private industry, and the logical place for a second career is with a defense-related employer. "We have a very nice situation," said Charles Kuyk, retired Air Force major general. "I retired from Gig Harbor and I wanted to go back to work. Boeing was interested."

Kuyk's experience with military-airlift requirements was an obvious asset to a company trying to sell its 747 as a military transport. So Kuyk went to work on "airlift and strategic systems" for Boeing.

"Sure. I take advantage of my experience," said Kuyk. "I know the requirements. I know airlift. I knew something about houses, I'd be selling real estate, I suppose."

Others echoed that reasoning.

"I go where my skills are," said Bill McGowan, a public spokesman in Boeing's D.C. office and a former Pentagon public-affairs officer. "They value my experience and my skills. I'm just making a living like anyone else."

Saturday
March 10, 1979



WEATHER

Fair and warm.

High, mid-to-upper 60s.

Low, 35 to 40. Details, D 26.

The Seattle Times

Washington's largest newspaper

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56 pages-15c ★ ★

Former executive reports trip

Boeing campaigned for Jackson

by RICK ANDERSON
Times staff reporter

A former Boeing Co. executive says a trip he took in 1971 to New Hampshire on company business was in reality a company-paid political jaunt to work on the presidential campaign of Senator Henry M. Jackson.

The executive, who is requesting an-

onymity, says the trip was arranged through another Boeing official and one of Jackson's longtime friends and campaign officials, John Salter.

Salter yesterday said he didn't remember the incident. Boeing officials also denied it. Jackson's office said the senator had no knowledge of it.

The former executive, who says he believes the trip may have violated fed-

eral law involving corporations and political campaigning, told a federally ordered special investigative review board late last year about the trip.

The three-member board, set up as part of a federal-court agreement between Boeing and the Securities and Exchange Commission over some of Boeing's overseas payments that were questioned, told the man two months ago

it had reviewed his statements but was taking no further action.

A copy of the board's final report, a public document, does not mention the man's statements, which included other allegations of improper or illegal acts by the aerospace giant, the man says.

Originally, the former executive says, he went to other Boeing officials with his information, but got no satisfac-

tion.

A Boeing spokesman yesterday said the company had "thoroughly checked out" the ex-executive's charges, but found no truth in them.

The spokesman said he was not certain as to how company investigators resolved the existence of what the exec-

(Continued on A 4.)

Ex-Boeing executive 'took political trip'

(Continued from Page 1.)

utive says are documents — a trip report and expense voucher — indicating the company participated in the planning, and paid for, the trip.

The travel-expense report states the man's mission to New Hampshire was to work on various company business, such as "Asic Program, AACF and AWACS," but underneath is a notation:

"Real reason — Sen. Jackson trip for John Salter."

Five days of per diem, lodging and local mileage reimbursement totaled \$187; other "business expenses" came to \$135.

A report by the former executive, dated November 15, 1971, states another Boeing official "said he was interested in enlisting my aid in helping Senator Jackson in the New Hampshire primary (Jackson, eventually, decided not to run in that state).

"Within another hour," he said, he, the other official and a third Boeing executive "showed up in John Salter's office downtown, where I was briefed on Senator Jackson's plans. I was asked if I could go to New Hampshire and get a

list of Democrats and Independents for the senator's campaign team to use in soliciting support.

"I was a little apprehensive because of being an Independent leaning toward the Republican side and am almost devoid of political experience of that type.

"John Salter said their position, in effect, was 'What will we end up with if Nixon loses?' I hadn't considered that, but there was a rather nauseous immediate reaction, so I said I would be glad to do whatever I could."

A week later, he was in New Hampshire, the report states. "I discussed the situation with a lot of people and not only was able to arrange for what I believe should be an excellent list, but I also found some interesting points which I wanted to put in this report" — which he did, listing what appeared to be a weakness of candidate Senator Edmund Muskie, the strengths of Jackson ("... he may have a very real shot at it in 1976 if not 1972") and an endless supply of G.O.P. sympathizers ("It turned out that almost all of the people I talked to in the state were Republicans ... it may be a very good thing for the senator if he appealed to the Republicans in the state

on a 'what if?' basis to have two good candidates").

The former executive said his name also got back to "the man who brought Jackson into New Hampshire, an industrialist by the name of Norm Kreisman who has taken a year off to help the senator." The executive said he met with Kreisman and then took him to meet others who were helping the Boeing man prepare the list of Democrats for Jackson.

The man also has two letters, with Kreisman's letterhead, dated November and December, 1971. Addressed to the executive, one states:

"Dear ...
"I just came down from The Hill, where Scoop announced today. Looks like we're off and running (for the presidency).

"Let me thank you again for the great help you've been with your contacts, advice and list of names. After I see the people you have recommended, I'll give you a full report. Meanwhile, I'm telling all concerned how helpful you've been.

"Best regards, Norm."

John Salter, who was Jackson's administrative assistant 25 years and his almost-lifelong friend and political adviser, said he couldn't recall meeting the former executive.

"I don't know him from a bar of soap," Salter said yesterday from his offices at Pier 66 in Seattle.

"It sounds kinda like the old Scheyer case, which wasn't what it was thought to be."

He was referring to stories in April, 1972, over the discovery that Rod Scheyer, a Boeing employe, was campaigning for Jackson in Northern Wisconsin. Scheyer also had spent \$299.66 for Jackson advertisements.

Boeing at the time said Scheyer was not authorized to spend any of the company's money on the campaign, and that any work for the senator was not done on Boeing's behalf.

Jackson was chagrined by the episode, which his staff said was an attempt by The New York Times, which brought up the issue, to make Jackson appear a company candidate for the aerospace firm — "The senator from Boeing."

There is no indication in the report by the former executive that Jackson personally had any knowledge of the executive's apparent efforts in New Hampshire.

In the case of Scheyer, Salter said, "he was apparently one of those guys Norm Dicks helped organize. There were some in Florida, too, as I recall. Athletes. I think they were called Jocks for Jackson, or something," he said with a chuckle. Another Boeing employe was found involved in Jackson's campaign that year in Florida, but the company again said the employe was on his own.

Dicks, then administrative assistant for Senator Warren Magnuson and now 6th District congressman, could not be reached for comment yesterday.

Pete Bush, Boeing spokesman, said the company found the former executive's statements "without merit."

Bush suggested the outside review board, concerned with the issue of overseas payments, had further confirmed Boeing's conclusions by choosing not to investigate the claims.

The one-time executive, Bush said, "is just a disgruntled ex-employee."

A 14

Sunday, March 11, 1979

The Seattle Times

here

Ex-executive's reports untrue, says Boeing

(Continued from Page 1.)

Bush also denied the former executive's contention, made to the special board as well as Boeing officials, that some Boeing employees were required to contribute up to 1½ per cent of their annual salaries toward the campaigns of political candidates favored by the company.

"We have a political-action committee, or something," Bush said, "that just asks if someone wants to contribute not more than one quarter of 1 per cent of earnings, not to exceed \$100 a year. There is no coercion."

NOT TRUE
The former executive told the board he refused to give 1½ per cent, and fell into disfavor among other executives. Three others in his office, he said, contributed money.

The Times on Friday reported the man had made his charges to the board and then privately was notified in January by the board's counsel that it was taking no further action. A final report by the board does not mention the charges.

The former executive also told the board, The Times revealed yesterday, that he had worked on behalf of Senator Henry Jackson's presidential campaign in 1971 and was paid for the work by Boeing. The company denies the assertion.

Boeing is being investigated by the Department of Justice over a security breach of top military secrets.

On Thursday The Times disclosed that James L. O'Rourke, a now-suspended Boeing employee and a key figure in the breach,

burned documents that were the subject of investigation.

Two others, Boeing Vice Presidents Ben Plymale and Robert Hager, also destroyed evidence after the Pentagon began an investigation of the leak last year.

In another matter, a federal grand jury in Washington, D.C., reportedly is reviewing Boeing's overseas payments, which were questioned by the Securities and Exchange Commission.

The S.E.C. had contended that Boeing failed to disclose \$52 million in payments to overseas customers.

The review board was created as part of a court settlement between Boeing and the S.E.C. last July. Three of the nation's major business executives, including the chairman of the New York Stock Exchange, made up the board, which found little to add to what Boeing had already disclosed in the settlement.

However, the board did reveal that, in connection with "the sale of aircraft to a nonairline government agency in Indonesia," in 1974, "it appears that a company consultant who was paid \$857,000 was also at the same time a consultant to the government agency that purchased the aircraft."

The report offered no additional, specific details on the incident.

It said the grand jury has subpoenaed company documents and interviewed past and present Boeing employees.

The report also indicated the Internal Revenue Service has begun a probe on the questioned payments.

Ex-Boeing official's reports rebutted

by RICK ANDERSON
and LOU CORSALETTI

Times staff reporters

An attorney for a committee that reviewed Boeing's overseas payments differs with a former Boeing executive over why the federally ordered committee never got to hear the executive's version of how some money may have been "funneled" to foreign consultants.

The former executive says he was prepared to give details of a questionable overseas payment but concluded the committee did not want to hear about it.

Albert J. Brown of San Francisco, counsel for the Boeing Special Review Committee, contends he asked the former executive for information but never received it.

Brown says a letter he wrote to the former Boeing employee, dated January 24, 1979, was his request for the information. In part, the letter states:

"If you have some new or additional material you wish to call to the committee's attention, I suggest you put it in writing."

The former executive, who has requested anonymity, said he did not respond because it appeared the committee already had completed its review process and because it had decided not to investigate further allegations he had made.

BROWN AND the former executive agree that the ex-Boeing official had supplied information on reputed company indiscretions, including a contention by the man that he had worked on behalf of Boeing in the 1972 presidential campaign of Senator Henry Jackson.

Boeing officials and Brown say the contention that the executive worked for Jackson is untrue.

An important Jackson supporter, Norman Krelman, an industrialist, told The Times last week that he remembers working with the then-Boeing executive during Jackson's 1971 primary preparation in New Hampshire.

Brown's January, 1979, letter to the former executive states that Brown "reported in substance what you have told me to the committee. The committee has considered this and does not believe at this time that any further investigation is required by it."

The former executive, who said he gave the previous allegations to the attorney in hopes of obtaining an audience before the full committee, decided he had lost that chance after it only "considered" the information. He said he felt the information showed the company could have violated federal election law.

The Federal Elections Commission in Washington, D.C., says it is unable to decide if any laws may have been violated unless it has a formal complaint before it, which it does not.

Panel lawyer rebuts ex-Boeing man

(Continued from Page 1.)

Brown sent the letter. The former executive said his feeling was based on the fact that seven days later (February 5), the committee's lengthy final report was released.

The report, in part, concluded: "(Boeing) company's (self) investigations were reasonably complete, and no further investigation is required."

The committee, composed of members of Boeing's outside board of directors, was established last year as part of a federal court order consented to by Boeing and the Securities and Exchange Commission.

The S.E.C. contended Boeing failed to properly disclose information on \$52 million in overpayments, charging the company "engaged in an undisclosed business . . . in violation of Federal Securities Law." The company points out that the committee did not allege acts of bribery,

while neither admitting nor denying allegations, consented to a federal injunction precluding the company from engaging in any such questionable practices in the future.

The consent agreement also set up a review of Boeing's investigations beginning in 1975 into the overpayments, and established the oversight committee of three outside board members living outside Seattle.

The three — William Batten, chairman of the New York Stock Exchange; David Packard, chairman of Hewlett-Packard, Palo Alto, Calif., and Harlan Haynes, board chairman of Standard Oil Co. of California — were instructed by the order to hire outside counsel with no connection to the company.

The company selected Brown and his firm, Pillsbury, Madison & Sutcliffe, which is also legal counsel for Standard Oil Co. of California. The court order says the counsel's first meeting had to meet S.E.C. officials.

BROWN SAID he met with the Boeing executive "several times" since last November to discuss information the ex-Boeing man wanted to give the committee.

Brown had lengthy conversations with Brown said in a telephone interview last week, "and he kept

saying this, what was going on, but he never would, or could, prove anything.

"He made a number of statements to me, and I reported them to the committee. We investigated them to the best of our ability — we didn't have subpoena power, or anything — and we couldn't find any substance to them.

"He spent a hell of a lot of time telling me what was wrong with the Boeing Aerospace Co. (the noncommercial division), about people, expense accounts, and he also said he would like to go in there as a consultant, he and another guy, and clean the place up.

"He told us lots of things that are not in (within) the charter of the committee."

Brown says that during one of their conversations, he asked the former executive if he knew how any of the money paid to overseas consultants on plane sales might have been improperly "funneled."

Later, Brown said, the former executive "called and left a message that he had information, so I wrote him a letter and said if he had any concrete evidence, put it in writing, and the committee would look into it."

The letter, in full, states: "I am sorry that I have not been available to talk to you on the telephone, however, if I had talked to you I think I would have said about what I am now writing.

"I have reported in substance what you have told me to the committee. The committee has considered this, and does not believe at this time that any further investigation is required by it.

"If you have some new or addi-

tional material you wish to call to the committee's attention, I suggest you put it in writing. When you write, you should be very specific, avoid generalities and recite the evidence that is available to prove what you are saying. I suggest you write direct to the chairman of the committee, Mr. Packard."

The former executive says his offer as a consultant was "not based on capitalism, but as part of my seven-year endeavor to help straighten things out at Boeing."

A company spokesman characterizes the man as a "disgruntled ex-employee."

THE COMMITTEE'S final report, which officially marked the end of its assignment, says Brown, touches on little new information that The Boeing Co. had not already disclosed to the public and shareholders, as part of the S.E.C. settlement.

It did reveal, under "additional disclosures," that the company's Indonesian consultant, paid \$857,000 as part of an aircraft sale to a government agency, also was a consultant to that same agency.

The report also revealed that in Nigeria a government official requested that Boeing contract with a particular consultant who was subsequently given checks for \$1,000 and \$20,000. The \$20,000 check later was discovered to have been endorsed by both the consultant and the government official who had recommended him.

Brown and his staff, the report states, devoted in excess of 1,600 hours over five months to the investigation.

Said Brown: "It's the view of the board, and my view, that we could spend the rest of our lives investigating (unspecific) things like the (former executive's charges)."

Says the former executive: "I have names, dates, places. I'm still willing to reveal them."

Five say Boeing man's visit focused on Jackson

by LOU CORSALETTI
and RICK ANDERSON
Times staff reporters

Five New England-area businessmen have told The Times their discussions with a former Boeing Co. executive in November, 1971, focused only on the presidential campaign of Senator Henry M. Jackson.

The former executive, who has asked to remain anonymous, contends he was sent to New Hampshire by Boeing to seek support for Jackson's possible entry into that state's primary election. He said the trip was not for company business.

Boeing officials have denied the assertion, noting that the former executive's expense report for the trip indicates he was there on an assignment.

The former executive said he conducted no business, but instead assisted a Jackson supporter, Norman Kreisman, an Eastern industrialist, in establishing contacts for support of Jackson in the

business community. He said he was sent to New Hampshire because he worked there previously for an electronics firm.

Four of the five businessmen were former fellow employees of the executive at Sanders Associates, an electronics firm at Nashua, N.H.

Charles Glenday, public-affairs director, said the former Boeing man told him in 1971 he was in the state working on the Jackson campaign.

The senior engineering director for the same firm, Arnie Schummacher, said he and the executive discussed Jackson's campaign, but not company business.

"He came to our home on a social visit and said he was working on behalf of Senator Jackson," Schummacher said.

Joseph Dolan, an aerospace marketing consultant and former Sanders employee, said the executive indicated he was "... out here on Jackson's campaign."

"He was not out here in the sense of usual

politicking, to get votes or that ... he was here to interview people. He was not on a campaign for Jackson, but only to write a report on him ... on Jackson's defense policies, something like that," Dolan commented.

And William Curry, now president of an electronics firm in Massachusetts, said he and his wife had dinner with the executive.

"He came with the idea of doing preliminary work for Jackson," Curry said.

Edward Lee Allman, president of the McGraw-Edison Co., Manchester, N.H., said Kreisman was with the executive when the three met to discuss Jackson's chances.

"They were looking for an expression from us on whether Jackson could win support. We had the impression that he (the former Boeing executive) was on a leave of absence," Allman said.

Kreisman later contacted him regarding Jackson's campaign, Allman said. Jackson later decided not to enter the New Hampshire Democratic primary.

The executive has told The Times that he assisted Kreisman in obtaining a list of business people who would be interested in supporting Jackson. That list was received by Kreisman, according to a letter he sent to the executive in December, 1971.

Earlier this week, a Boeing Co. spokesman, Pete Bush, said that Boeing does not contest that the former executive was in New Hampshire.

He said the executive was there on company business. Any work the executive did for Jackson would have been on his own time, Bush said.

"No original documents related to his trip make reference to the senator," Bush said. "If he did not carry out his business assignment, he is directly contradicting his own statements to us as well as the travel-expense form which he signed," Bush said.

The executive said his forms indicated company business because he was told to do so in order to "cover" the political assignment.

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Suspended, reassigned

Boeing punishes 5 after probe

by RICK ANDERSON
and LOU CORSALETTI
Times staff reporters

A Boeing Co. investigation has confirmed the "apparent" breach of national security involving company mishandling of top-secret defense documents last year, Boeing revealed yesterday.

The results of the investigation were reported in the company newspaper, Boeing News, and confirmed last night by Pete Bush, Boeing spokesman.

Five employees implicated in a 10-month-long Defense Department investigation into the apparent breach have been disciplined, the company stated.

The five, whose security clearances were lifted last month by the government, have been suspended, reassigned and, in some cases, have received substantial pay cuts, Boeing said.

A sixth employee was cleared by its investigation, the company stated.

The company investigation also found, confirming an earlier Pentagon probe, that several of the employees initially misled the government investigators and Boeing as well.

The Pentagon began its investigation in March, 1978, after discovering that top-secret informa-

tion on the MX missile program had reached Boeing's hands.

Government investigators revealed that some Boeing officials had been involved in improperly obtaining the secret data, then transmitting it by telecopier from Washington, D.C. to Boeing offices in Kent.

Intelligence experts said the transmission could have been intercepted by Soviet intelligence agents who, it is thought, regularly monitor some defense and corporate communications systems.

Two of the five disciplined employees, the Boeing paper reported, and Bush confirmed, have, on the advice of their attorneys, refused to testify or answer questions from either Boeing or government investigators.

Boeing has asked the Defense Department to reinstate the security clearance of the sixth employee, a secretary in the Washington office, who was cleared by the company investigation.

Of the remaining five, the government earlier identified four of them as Boeing executives.

They are Benjamin Plymale, Boeing Aerospace Co. vice president for marketing; William Jacaway, an assistant to Plymale; Charles Welling, Washington, office manager, and James O'Rourke, a marketing representative in Washington.

Bush would not disclose the names of others referred to in the Boeing paper's story.

The company did state it found no evidence of improper conduct by Robert W. Hager, a Boeing Aerospace vice president whose name was mentioned in Times reports based on the government's investigation.

Boeing officials say they are taking steps to enforce security within the company, including a memorandum from T.A. Wilson, Boeing chairman, to senior managers "demanding" adherence to security rules.

Defense officials earlier this month said Boeing had obtained top-secret information from a classified memo being prepared for President Carter.

The memo discussed whether the administration should build a new land-based intercontinental ballistic missile, the MX, or one of several less costly alternatives.

Boeing, the nation's fourth-largest defense contractor, has done some preliminary work on the MX.

The company yesterday said a summary of its investigation has been forwarded to the Defense Department, whose own investigation has been turned over to the Justice Department for possible action.

(Other details, A 14.)

SEATTLE TIMES - FRONT PAGE 3-23-79

A Canadian member of Parliament said he will continue to press for an investigation into fees paid to a Canadian agent by The Boeing Co. and to determine if the agent paid income taxes on the money.

Allan McKinnon, member of the Progressive Conservative Party and representative from Victoria, B.C., raised the question Wednesday in the House of Commons in Ottawa.

McKinnon is his party's defense critic to the opposition majority party, the Liberals. As such, his responsibility is to question any action taken or proposed by the Canadian Minister of Defense.

McKinnon asked Minister of Revenue Tony Abbott if his special investigative section has done, or is doing, an investigation into "the matter of admitted payment to a Canadian agent" by Boeing.

McKinnon's query centers on payment of fees to the agent in connection with sales of Boeing 707s to the Canadian government and private airlines in the early 1970s. He said he is not satisfied with a Royal Canadian Mounted Police investigation which last year found no evidence of a crime.

McKinnon said his concern is whether the agent, whose identity has been protected under a court order sought by Boeing, has paid taxes on the money Boeing paid him.

McKinnon said he was not asking the minister to divulge names.

"But surely Canadians have the right to know if the taxation-department sleuths are investigating this case, or if alternately, the minister's department is doing nothing, or worse yet, if the case is embarrassing to the government and they are stonewalling it deliberately," McKinnon said.

Abbott responded:

ly, the income-tax department would be concerned if that recipient was failing to report the income."

He added that it was against Canadian law to divulge whether his department is conducting an "examination" of a citizen or corporation and that he could not disclose that information in the House of Commons.

Evidence of fees paid to the Canadian agent came to light last July in a report by the United States Securities and Exchange Commission, which outlined a complaint against The Boeing Co. regarding reported inadequate disclosure of payments made abroad in connection with sales of airplanes. The S.E.C. began the investigation into overseas payments in 1975.

Although payments made in several countries were described in detail, the Canadian sales were discussed only generally.

McKinnon also was critical of the "mutual

are related directly to

Canada. Generally, the treaty stated that neither government would release information on the investigation without consent of both sides. Only law-enforcement agencies would have access to the information.

Some members of the House of Commons questioned the pact in 1977, McKinnon said. The government, however, would only state that it was necessary to ensure a better flow of security information between the two countries, he said.

Both McKinnon and G.W. Baldwin, another Progressive Conservative House member, called the pact a "coverup."

Baldwin further accused Ottawa and Washington, D.C., of placing a "lid" on parliamentary and judicial investigations.

Transmission exposed secret data to spy 'tap'

by RICK ANDERSON
and LOU CORSALETTI
Times staff reporters

There were no dark street corners, no cloak-and-dagger assignations, no sleazy bar girls dropping tiny pills into drinks. The jetmobile with seat ejector and tailgun presumably remained parked in a cave somewhere.

The kind of espionage trap the government says The Boeing Co. got itself into was not the stuff of popular fiction.

Were Ian Fleming or other spy novelists to try, they might find a touch of madness to it, a battle of moonbeams, a hopelessly diabolical scientist, perhaps, or a computer or two that goes clunk in the night.

But what supposedly ensnared Boeing, leading to what the Pentagon asserts was a breach of national security, is what intelligence agencies believe to be the serious, sophisticated network of nuclear-age espionage.

It is waged mostly in the silence of space — top secrets being plucked by governments from microwave transmissions, bounced off satellites, flashed to receivers and finally, spilled onto spinning magnetic tapes locked away behind embassy doors.

Boeing's case, and although six company employees had their security clearances lifted pending an investigation, no formal charge has been made against any of them.

The company's own investigation, completed last week, resulted in disciplinary action against five employees. The action included suspension, reassignment and, in some cases, reduction of pay.

Boeing said its investigation "confirmed the apparent breach of security" and that "mishandling" of sensitive material did take place.

IT WAS NOT, Pentagon officials suggest, simply an instance of the company apparently obtaining top-secret missile data through improper channels last March.

Boeing assertedly acquired the data, for planning and developmental reasons, from an Air Force lieutenant colonel who himself had supposedly been given the "bootlegged" data by a Boeing employee on loan to the Defense Department.

Air Force Brig. Gen. Guy Heckler said a week ago that Boeing, the nation's fourth-largest defense contractor, probably could have obtained the data through normal channels under Pentagon regula-

tion. The company's own investigation, completed last week, resulted in disciplinary action against five employees. The action included suspension, reassignment and, in some cases, reduction of pay.

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least one time, possibly more.

The transmission at that point becomes akin to a radio wave, taking flight from a microwave sender to a microwave dish hundreds of miles away.

Somewhere between these two points, intelligence experts say, foreign agents hone in.

Computers are used to intercept thousands of constant transmissions, detecting particular signals that — if voices are to be heard — then require a manual interception.

But, the experts say, easiest of all to tap is the telecopier relay.

While a computer can't "hear" a voice transmission, it can tap and record the message sent by another computer, in this case, the telecopier.

United States officials say foreign agents, principally those of the Soviet Union, regularly attempt to listen in to the calls of the government and business corporations of America, seeking both military and economic intelligence.

They assume, without apparent direct proof, such was done in the case of the Boeing transmission. At least the threat was there, they say.

Intelligence sources say the Russians have installed assorted listening devices at their embassy

in San Francisco and Chicago, and even tap from afar in Cuba.

A.T.&T. LAST week said it has no evidence that such eavesdropping goes on. A spokesman said the government never has called to its attention a single instance of foreign agents tapping transmissions. "But," he said, "this is not to say it hasn't occurred."

Jim Moznette, of A.T.&T.'s subsidiary, Pacific Northwest Bell, said in Seattle that microwave interception requires equipment and expertise that, logically, only a government could assemble.

"There are millions and millions of conversations going on," said Moznette. "It's almost impossible to pull off. Now, when you tap into a cable or line, obviously that kind of thing goes on, and I'm speaking mainly about someone locally, for instance, tapping into someone else's line."

"We feel the microwave system is pretty safe in that respect. But, yes, a large government-type outfit or entity could, with a large investment in time and people and money, possibly bring it off."

Much of the government's knowledge of the espionage practices of foreigners actually comes from the United States spying on them. And what the Russians presumably do here, the Americans

THE LITTLE-KNOWN (but \$1.3 billion budgeted) National Security Agency is reputed now to be Washington's single most important source of intelligence.

Its extraordinary snooping skills include having for years monitored, by satellite interception, the telephone conversations between the limousines of Soviet leaders and their Kremlin offices.

Intelligence officials distinguish between the Russian and American espionage systems by crowning the United States for its advancement in technology; the Soviet system remains predictably proletarian, requiring more men than machinery to function.

It does not, however, make Soviet agents any less of a threat.

"I'm not speaking strictly of the Boeing allegation," said Pacific Northwest Bell's Moznette, "but we've had a number of contacts and conversations over past years with the federal government about this kind of thing. We've done investigations, and we're concerned."

"We've not been able to determine it's happened. But this is not to say it didn't. Or that the Russians aren't doing it."

Said a Boeing official: "We don't have any proof it happened. But, apparently someone, some-

(18)

2 Boeing contracts involved

SEATTLE TIMES - FRONT PAGE 3-25-79

Defense work shows 40% overrun

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by DEAN KATZ

Times Washington Bureau

WASHINGTON — Costs have increased a dramatic 40 per cent over original estimates on present major defense projects under contract by the Department of Defense, Pentagon documents show.

Translated into dollars, it will cost \$37.5 billion more than originally planned to complete work on the 55 major weapon systems now being developed and built for the Department of Defense.

The costs of completing the weapon systems have jumped from an original combined estimate of \$145.3 billion to an estimate of \$232.8 billion.

In some instances, costs are expected to more than double by the time the projects are completed.

In one case, the Air Force's E-4 Advanced Airborne Command Post program, in which The

Boeing Co. is the prime contractor, is expected to be 185 per cent more than the original development estimate made in 1974.

Other examples include:

— The Navy's Phoenix air-to-air missile which is estimated to cost 116 per cent more than original estimate of \$536.4 million. It now is estimated at nearly \$1.8 billion. Hughes Aircraft Co is the contractor.

— The Air Force's F-15 airplane, which is estimated to cost 81 per cent more than the original development estimate of \$7.3 billion. McDonnell Douglas is the prime contractor for the air frame.

— The Navy's Sparrow air-to-air missile, which is projected to cost 250 per cent more than originally estimated. The original development cost was projected at \$453.6 million. The missile is being built by General Dynamics and the Raytheon Corp.

Most of the original estimates

The espionage trap which the government says Boeing got itself into involves what intelligence agencies believe is a sophisticated spy network. A 22.

were made in the late 1960s and early 1970s. Since then, inflation has risen rapidly and, as a result, Pentagon officials are quick to point out, so have the costs of the weapon systems.

When cost increases for the military projects are figured in "base year dollars" — that is, excluding inflation — increases still averaged 17 per cent.

And a Pentagon document known as Selective Acquisition Report (S.A.R.) cost summary shows that original estimates for completion of the major weapon systems included an average 30 per cent "projected escalation" allowance to cover inflation.

(Both figures for cost growth are adjusted for changes in quantity.)

Although Pentagon officials point to inflation as a key culprit in the rapidly rising costs, the General Accounting Office, the investigative arm of Congress, noted in a recent report there are other reasons.

The G.A.O. study of major federal acquisition programs, including defense, said: "unanticipated development difficulties... faulty planning, poor management and poor estimating will increase the costs of major acquisitions."

Dale Church, deputy undersecretary of defense for acquisition policy, said in an interview last week that schedule changes ordered by the President or Congress also can drive up costs of military projects.

He conceded, however, that there is a tendency on the part of military officials to underestimate the original costs of weapon systems they are promoting because

(Continued on A 22.)

Inflation blamed for defense-contract overruns

TIMES 3-25 (Continued from Page 1.)

"naturally, they know it can be sold better if it is cheaper."

HE SAID THE military also tends to underestimate the original costs of building weapons systems because contractors will drive up the cost of the contract if they know there is a large contingency fund available.

Church acknowledged the result is that it "creates a worse perception" for the public about the job the Defense Department is doing in holding down costs.

Church said a recently completed preliminary study by the Rand Corp. showed that cost overruns on military programs have gone down from an average of 40 per cent in the 1960s to 20 per cent so far this decade.

In a letter sent recently to President Carter, six members of the United States Senate, including George McGovern, Mark Hatfield and William Proxmire, said there are very concerned about the massive growth in costs for military programs.

"Runaway costs characterize the entire defense procurement program," the senators said, adding that "something is very wrong with the manner in which the Department of Defense spends the taxpayers' money."

Senator Warren G. Magnuson, Washington Democrat and chairman of the Senate Appropriations Committee, said last week he, too, is concerned about the rapid rise in costs. He said his committee would "look carefully" at each future request by the Pentagon for additional funds to complete existing defense projects.

PROXMIRE AND the other senators based their letter to President Carter on the S.A.R. cost summary, put out quarterly for the benefit of Congress.

The document summarizes the costs of the major military programs and gives the general reasons for increases.

Most of the higher costs are attributed to inflation, scheduling changes, engineering modifications or quantity changes.

But only a small portion is blamed on contract cost overruns.

In at least one instance discovered

during an investigation by The Times, a substantial cost overrun on a major military project involving The Boeing Co. appeared in another category used to justify cost growth.

A Pentagon official, Lt. Col. James R. Patrick, told The Times the overrun — which totaled \$113.3 million — resulted from problems in integrating a highly sophisticated radar system into Boeing 707 airplanes being constructed for the Air Force's Airborne Warning and Control System (AWACS).

Boeing is the prime contractor on the project, Patrick said.

Instead of being classified as an overrun, the cost increase was categorized in the S.A.R. cost summary as a higher cost due to a "schedule" change.

Patrick, the Air Force program-element monitor for the AWACS program at the Pentagon, said the overrun, which occurred between 1974 and 1976, was classified as a schedule change rather than a cost overrun because it delayed the production schedule for the aircraft.

He said that if an overrun can be classified into another category, such as scheduling, it is not reflected in the cost summary as an overrun.

In fact, the cost summary indicated that the AWACS program had an under-run of \$2.2 million.

THE PRESENT estimated completion cost of the AWACS program is 54 per cent above the original estimate made by the Pentagon in 1970. Exclusive of additional funds to cover inflation, costs on the AWACS program are estimated to rise 22 per cent.

Originally, the Pentagon figured it would cost \$2.6 billion to build 42 of the AWACS planes (including a \$510 million "projected escalation" allowance), which were designed to detect low-flying enemy planes and to serve as flying defense command and control centers.

The present estimate by the Pentagon is that 34 of the planes will cost \$4.1 billion to complete.

Originally, the planes were to have cost \$63.4 million each, but they now are estimated to cost nearly double that — more than \$122 million each.

Patrick said most of the \$1.5 billion increase was attributed in the S.A.R. cost summary to "schedule" changes

and inflation because of congressional delays in authorizing spending for the AWACS according to the schedule originally planned by Boeing and the Pentagon.

But Patrick confirmed that apart from the cost increase attributed to the schedule was the cost overrun stemming from the radar problem.

Patrick said that although the overrun totaled \$113.3 million, only \$68 million of the overrun was reflected in the cost summary submitted to Congress, because Boeing and Westinghouse, the subcontractor which designed the radar for Boeing, paid the rest of the unanticipated higher cost.

PATRICK SAID Boeing absorbed about \$17 million of the overrun, Westinghouse absorbed \$28.3 million, while the taxpayers were stuck with the rest — \$68 million.

Maj. Gen. George Rutter, manager of the AWACS program at the Air Force's Electronics Systems Division at Hanscom Air Force Base, Mass., confirmed that the cost overrun occurred.

Patrick said the overrun was due to Westinghouse "underestimating the technical difficulties" of integrating the radar system into the Boeing 707 airframe used for the AWACS planes.

Asked whose responsibility the overrun was, Patrick said: "The overall responsibility rests with Boeing. The individual responsibility rests with Westinghouse. I guess you could say it was Boeing's responsibility because it was the integrating contractor."

Another major Boeing defense project designed for the Air Force, the E-4 Advanced Airborne Command post, is another instance in which costs have risen dramatically.

In 1974, the Pentagon estimated it would cost \$484.3 million (including a \$41.4 million projected escalation allowance) to build seven of the planes, designed to serve as national emergency command posts in the event of war. The estimate now is that only four of the planes will cost \$482 million.

The program, according to the S.A.R. cost summary, has sustained cost-growth increases of 185 per cent (adjusted for quantity), including inflation, since the original development esti-

mate. The increase was one of the highest for a military project reported on the cost summary of major weapons systems.

EXCLUDING INFLATION, the cost of the E-4's has gone up 66 per cent. The higher costs were split about evenly between the category defined as "schedule" and the category defined as "estimating" changes. Some of the increase also was attributed to engineering changes, although none was blamed on cost overruns.

The E-4 planes, according to a General Accounting office report, originally were estimated to cost \$69.2 million each, but will now cost more than \$120 million each, based on latest estimates.

A Boeing spokesman, Pete Bush, said he could not comment on the cost increases or the reasons for them on either the AWACS or the E-4 program because Boeing's response would have to await a lengthy Defense Department approval process. He said there also were instances of cost underruns but he couldn't comment on them for the same reasons.

However, Lt. Col. Eugene Larson, Air Force program-element monitor for the E-4 project at the Pentagon, told The Times last week that "there was a very substantial error in estimating what the (E-4) program would (cost)" by both Boeing and military officials.

Larson said he did not know exactly how much of the higher cost was attributed to the "error in estimating," although the cost-summary document showed that the category defined as "estimating" contained an \$85 million cost increase.

"It wasn't one specific item" that drove up the cost, said Larson. "It was the entire concept of the plane and the integration of both newly developed and government-furnished equipment" installed in the plane.

LARSON SAID the Defense Department's original contract with Boeing was renegotiated because of the higher costs.

Efforts to get more detailed information on the reasons for the increases from the Air Force public-relations office at the Pentagon were unsuccessful.

In summarizing the E-4 program problems, Larson said: "Boeing had some very red faces. I know there were a lot of problems."

Following a subcommittee hearing last week on the Air Force's budget request for next year, Lt. Gen. Thomas Stafford, the former astronaut who now is deputy chief of staff for research, development and acquisition, said he was not familiar with the cost increases on either the AWACS or E-4 program.

A Pentagon budget official, disagreeing with Church on the matter, said that in some cases the Defense Department has asked Congress for more money than a contractor estimates it will cost to complete a program. That way, if there are overruns, the Pentagon does not have to face the embarrassment of having to come back to Congress and ask for more money, said the official, who asked not be identified.

The officials said that kind of budgeting practice may not be as forthright as it should be, but it is "realistic."

Senator Magnuson said his committee staff has become "very conscious" of the substantial cost growth in military programs over the past few years.

He said the Pentagon has "a peculiar internal financing system that may not always reflect the true costs of military programs."

In some cases, Magnuson said, the Defense Department may be using surplus money in its budget as "a cushion" to protect itself in the event of cost overruns, thereby avoiding having to ask Congress for additional money.

"I think they (Pentagon officials) are playing games with us by not specifying what might be an overrun and what might not be," said Magnuson.

Magnuson said he isn't sure to what extent the Appropriations Committee can cut overall cost growth, but he said his committee can try to get a handle on cost overruns and put pressure on the Pentagon "to be more honest with us."

Magnuson said he was "glad" The Times was examining the large growth in costs.

"Although we knew about this, there never has been any specific publicity about it," Magnuson said.

2 indicted in Japan over plane payments

(Continued from Page 1.)

nection with a reported government investigation into possible tax evasion involving the commission paid over a period of years for a \$66 million sale to Korean Air Lines.

A Japanese newspaper reported the government was investigating the possibility that a letter from a Boeing Co. executive, R.W. (Dick) Welch, written in January, 1977, to Kaifu, may have been an attempt to establish makeshift evidence to avoid paying taxes on the \$3.6 million.

There were indications that the money, which Boeing earlier said had gone to the consulting firm to be given to the Korean airline, instead stayed in Japan and was not declared for tax purposes, the government said.

The Welch-to-Kaifu letter stated the payments were destined for points outside Japan, and apparently thus not taxable.

Boeing, in its report to stockholders last year on that and other overseas payments that had been questioned by the Securities and Exchange Commission, gave no reason for giving Korean Air Lines \$3.6 million after the private line had just bought a number of 707s and 747s from Boeing.

Nissho-Iwai earlier last month contended it did forward the payment, calling it a "rebate," saying it was given back to the Korean airline to "ensure" the Boeing sale.

That payment was not mentioned in connection with the indictment yesterday of Shoichi Yamaoka, head of Nissho-Iwai Co.'s aircraft department, and his deputy, Juiiro Imamura.

The Boeing payment came to light after the government in January began a new look into possible political payments because of disclosures by the Grumman Corp.

When Nissho-Iwai had difficulty in accounting for the Grumman money, investigators turned to the Welch letter, which had been written to satisfy the S.E.C. investigation.

The Associated Press said a Japanese newspaper, the Mainichi, gave four reasons investigators were reportedly suspicious of the letter as well as of consulting-agreement receipt:

— Both documents appeared to have been made after the consultant agreement was signed, and the letter and receipt appear to have been made at the same time.

— The Welch-Kaifu exchange of letter and receipt accounted for a total of \$3,732,378, but the money the S.E.C. found in its investigation came to \$3,628,500, leaving \$103,878 unaccounted for.

(In its disclosure report to stockholders as required by a federal-court settlement with the S.E.C. last year, Boeing listed the payment as \$3.6 million to the consulting firm.)

— Nissho-Iwai said it made the payments — the airline rebates, apparently — to a person identi-

million.
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- Both documents appeared to have been made after the consultant agreement was signed, and the letter and receipt appear to have been made at the same time.

- The Welch-Kaifu exchange of letter and receipt accounted for a total of \$3,732,378, but the money the S.E.C. found in its investigation came to \$3,623,500, leaving \$108,878 unaccounted for.

(In its disclosure report to stockholders as required by a federal-court settlement with the S.E.C. last year, Boeing listed the payment as \$3.6 million to the consulting firm.)

- Nissho-Iwai said it made the payments — the airline rebates, apparently — to a person identified only as Mary Lee, nationality unknown.

- Nissho-Iwai's accountant found the exchange of letter and receipt suspicious and began an its own investigation at the time.

Japanese officials in the past have looked into Boeing overseas payments, finding no wrongdoing.

A government official in 1977 estimated Boeing's "questionable" transactions in Japan at \$16.7 million, and the country's transport minister once said Boeing had contributed the difference on a sales price cut to some Japanese politicians.

Japanese tax officials also had investigated a reported \$547,000 payment from Boeing to All Nippon Airways, which the airline apparently failed to report for tax purposes. Boeing had said the money was for routine advertising and promotion costs in connection with a plane sale.

'Fraud theory' in Boeing probe

by RICK ANDERSON
Times staff reporter

Combining the resources of a grand jury, foreign police, international agencies and world courts to unearth details of The Boeing Co.'s overseas payments, the United States government is attempting to develop what officials privately term a "fraud theory" against the aerospace firm.

Boeing, which in earlier civil-court settlements with federal regulatory agencies, neither admitted nor denied making illegal foreign payments, now faces a persistent Department of Justice task-force investigation into possible criminal violations over the circumstances of the multi-million-dollar payments.

The Boeing Co. has resolutely contended that none of its overseas payments in the 1970s was illegal, and points to its unique standing among dozens of American firms whose payments have been questioned by authorities.

"We are one of the very few firms which has contended it hasn't made any illegal overseas payments," says a company spokesman. "We refuse to concede that any of our commission payments were illegal."

A Justice official, without elaboration, confirmed the "fraud theory."

Another, nongovernmental, attorney with direct knowledge of the case, who has talked to witnesses and seen documents subpoenaed by the Washington, D.C., grand jury, told The Times the "fraud theory" is based on several contentions held by the Justice Department.

Simply put, the attorney said, if money was paid to officials through hidden arrangements to influence plane sales improperly, it could constitute fraud.

The legal theory, the attorney said, would not require emphatic examples of bribery or kick-back, but rather a showing that questionable transactions defrauded people or nations of the honest services of their officials.

ANOTHER FIGURE familiar with the "fraud theory" says it includes a more direct "conspiracy" angle, as evidenced last week with news of the government's attempt to track a \$3.6 million Boeing commission through Europe and the Middle East.

Boeing has admitted it was "advised" by an official of a Lebanon-based airline "that it would

Assistance by foreign nations . . . is playing an important role in the Justice Department's task-force probe of overseas payments . . .

try's reputation, mailbox companies are set up by foreign businessmen or firms to serve frequently as a front for questionable deals or evading taxes. Some companies have been found to consist of nothing more than a nameplate and a letterbox to pass on mail.

Last week the little nation proposed new laws for stricter control of the companies. While all are legally registered, no lists have been published; even their number is a mystery. Some residents say there are more companies than there are Liechtensteiners, who number 24,000.

IN A REPORT the Securities and Exchange Commission required it to make to shareholders last year, Boeing said it was assured by the Middle East Airline official that the \$3.6 million did not benefit any airline employees. But Boeing could not say to whom the money actually went.

"The beneficial owner or owners of the Liechtenstein corporation were not then and are not now known to the company," Boeing said.

The Seattle company gave no reason why it was "necessary" to make the \$3.6 million payment, or deposit it in a numbered account destined for persons unknown.

Today, however, the government apparently is trying to answer those questions in Switzerland, where last week a federal Supreme Court ruled a Swiss bank had to divulge information regarding account No. 188392.

It was reportedly to this account, at the Swiss Bank Corp., that the \$3.6 million flowed, in and out, in 1974.

Bank information, now being screened by a special Swiss committee before release, may aid investigators in their belief the money then went to a mailbox company called Resora, in Vaduz, Liechtenstein.

Authorities suspect that the payment arranged by the airline official — believed to be

Asad Nasr, a director of Middle East Airlines — did in fact eventually reach airline employees or others involved in the 1974 Boeing sale, which in

Nineteen nations have signed mutual-assistance pacts with the United States to trade investigative information on the payments. Nine countries have signed up specifically to trade data on the Boeing transactions.

(A 1977 study reported that 288 American companies disclosed making nearly \$412 million in questionable overseas payments between 1970 and 1976. The Boeing Co. led the list, compiled by Charles E. Simon & Co., although Boeing insisted its \$70 million in payments on \$5.5 billion in sales involved nothing questionable.)

The information swapped internationally includes the names of some sales consultants whom Boeing had fought to keep a corporate secret. With the backing of then Secretary of State Henry Kissinger, who believed disclosure would not be in the national interest, Boeing obtained a court ruling that the foreign consultants' names were proprietary.

The information traded in the mutual-assistance agreements is publicly non-disclosable and to be used for investigative purposes only — but the names of some of the consultants have leaked out, in a roundabout way, through criminal charges made in other lands.

Acting at least in part on information supplied by the United States, three foreign nations have made accusations against nine public officials and middlemen of bribery and other illegal acts directly and indirectly related to Boeing sales.

THE COMPLAINTS, filed within the past five to eight months, do not include a tenth person investigated by a fourth nation, in 1977. That case has since resulted in freedom for the man, an airline official who Boeing admits was on a company retainer.

That official, Jose Antonio Pigna, an executive with Viasa, the national airlines of Venezuela, was accused in January, 1977, of collecting a \$500,000 bribe on the purchase of a Boeing 737 for the country's President.

public official, and were advised he was neither."

The Venezuelan embassy in Washington, D.C., last week said Pigna was held, investigated and later released after lack of evidence to prosecute. "He is a free man, walking the streets of Caracas today," said an embassy official.

THE MOST RECENT case filed involving Boeing payments came last November when the Egyptian government indicted two former cabinet ministers and three top airline officials for bribery and negligence.

A government attorney in Cairo, Anwar Seli, said a man named Helmy Shams, one-time technical adviser to the national airlines, Egyptair, was accused of accepting \$125,000 in bribes from The Boeing Co.

The government said Shams received the money for issuing a misleading study that urged purchase of Boeing aircraft.

The trial of the men is now in recess.

Said Bush, Boeing's spokesman, last week: "We acknowledged well over a year ago that Shams was retained as a consultant, that he had held responsible government and airline posts — though, not as far as we could ascertain, at the times we retained him — that the agreements with him were legal and that no one knowledgeable concerning Middle East sales felt that having him as sales consultant was unusual."

The accusation, made in connection with a 1972 Boeing jetliner sale to Egypt, was made along with lesser complaints against two now-ex-government officials, Egyptair's former board chairman, and an ex-airline planning director.

The latter are in connection with loan arrangements made through the international financier, Kidder-Peabody & Co., for \$53 million at 8 per cent interest when, the government alleges, 5 per cent was available with a more favorable repayment schedule.

Boeing's spokesman said the complaints against those men have nothing directly to do with the company's sale — "all they did was arrange financing for the airline."

He added that "any contention (apparently by the government, in this case) that 5-per cent loans were available to Egypt for the purchase of Western equipment, disregarded the facts that were inescapable at the time . . ."

TWO MONTHS before the Egyptian charges

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Boeing has admitted it was "advised" by an official of a Lebanon-based airline "that it would be necessary that a \$3.6 million commission be deposited in a Swiss bank account" in connection with what Boeing said was a \$101 million jetliner sale to the airline.

This was an apparent reference to what was announced as (including spare parts and supporting equipment) a \$120 million sale of three Boeing 747s to Middle East Airlines in 1974.

Boeing admitted the money was to be deposited in a numbered account and, upon receipt by the same Swiss bank of advance-sale payments from the company, the \$3.6 million then would be forwarded to what is known as a "mailbox company" in Liechtenstein, the storybook kingdom bordering Switzerland.

The tiny principality, ruled by Prince Franz Josef II, is the home of tens of thousands of such companies. They do not make mailboxes, but do receive some mail.

With a notoriety that has blemished the coun-

there are Liechtensteiners, who number 24,000.

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American officials say the Eximbank financing would have been refused had the banking agency been aware of the payment.

The transaction, officials (quoted by the Associated Press) said from Switzerland, "amounted to conspiracy to defraud the United States."

THIS ASSISTANCE by foreign nations — in the Swiss case, brought about by an American-Swiss judicial treaty used to pry open the bank account — is playing an important role in the Justice Department's task-force probe of overseas payments by Boeing and as many as 40 other American corporations.

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That official, José Antonio Pigna, an executive with Viasa, the national airlines of Venezuela, was accused in January, 1977, of collecting a \$500,000 bribe on the purchase of a Boeing 737 for the country's President.

A month before the accusation, Boeing had admitted it had retained Pigna as a sales consultant a year earlier, December, 1975. The company said its only sale to Venezuela was the 737 for executive use by its President, but didn't know if Pigna was involved in that sale, which was announced a month after Pigna was officially retained by Boeing.

Although Pigna was involved in Boeing's attempt to sell helicopters to the Venezuelan government, there was never any conflict of interest in that or any plane sale, Boeing reiterated last week.

"Because Mr. Pigna was an officer of an airline in which the government of Venezuela held an interest," said Pete Bush, head of Boeing's corporate public relations, "we sought legal opinion from competent Venezuelan counsel as to whether he was a government employee or a

money for issuing a misleading study that urged purchase of Boeing aircraft.

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TWO MONTHS before the Egyptian charges were announced, the government of The Sudan made a bribery accusation against a Boeing agent, based on information the country said it had received from the Justice Department.

In that case, announced in September, The Sudan named El Sir Abbas as the recipient of \$680,000 connected with a \$24 million Boeing sale. The Northeast Africa country says the agent deposited the money in a foreign bank account for himself and other Sudanese.

The nation's prosecutor general said the money was over and above the legal commission, and that depositing money in a foreign account was a violation of The Sudan's currency laws.

Apparently, the charges were made in connection with the 1973 sale of two Boeing 707

(Continued on A 23.)

Payment of \$3.6 million 'commission' studied

(Continued from A 22.)

transports to Sudan Airways, the national airline.

In its S.E.C. disclosure report last year, Boeing said it paid \$1.4 million in "fees" to a consultant in connection with sales in Sudan, Pakistan and another unnamed country.

The money, Boeing said, was paid to two Liechtenstein corporations designated by the consultant.

Boeing also revealed it executed two consulting agreements in a number of countries, including Sudan, on other sales.

"In certain instances, payments due were made to a bank account located outside the countries in which the consultant resided," Boeing reported. "In a limited number of cases, payments were made to bank accounts identified by number only."

"In one instance, the company paid a consultant by check, or assisted the consultant in converting a portion of the payment into bearer bank instruments (negotiable currency or paper)."

Boeing, asked last week for comment on the Sudan case said: "A prosecutor asked the judiciary to charge the individual — whom Boeing paid under two separate consulting agreements — with bribery and foreign-exchange violation. We don't know what disposition has been made of the prosecutor's request."

BEFORE THAT charge, in August last year, India investigated three citizens in connection with Boeing sales.

Kekoo Maneckji, named as Boeing's consultant in Bombay, was accused of an unspecified criminal violation the Indian government said was in part based on information received from

the United States Justice Department.

Two of Maneckji's relatives and their business operations also were involved in the accusations. The accusations were made in connection with Boeing sales to Indian Airlines.

Boeing, in its S.E.C. report, mentioned India as among the countries where consultants were in some cases paid through Swiss or Liechtenstein corporations.

Bush, Boeing's spokesman, last week said of Maneckji: "Although a complaint has been issued for a violation of foreign-exchange regulations, no formal charge has been filed. He is free and in the interim we have sold four 747's to India and are negotiating for additional sales."

Bush adds that, of all the accusations made around the world, only two have been for bribery involving Boeing agents, and no one has been convicted.

Specifically on the issue of payments to officials, Boeing said — in February, 1976, after it and the S.E.C. had begun investigations — that the company had made no payments to government officials.

Later, Boeing said officials were paid in "four or five instances."

This was later expanded to the company's "belief" that those officials who were paid were not in a position to influence sales.

A REVIEW OF the company's payment disclosures shows Boeing paid out \$37.1 million from 1971 through 1977 to public officials or political figures or their companies for assistance in overseas jet sales.

That figure is contained in 1978-79 reports issued from Boeing's investigation and review following settlement with the S.E.C., which had

questioned an estimated \$52 million in Boeing overseas payments.

Boeing, in its reports, actually disclosed \$54.9 million in payments, a new accounting shows.

Besides the \$37.1 million in "commissions" paid to public and political figures, an additional \$12.3 million went to persons unknown.

The unknowns include the anonymous recipient of the \$3.6 million paid through the Swiss bank and Liechtenstein on the Middle East Airlines sale.

The remainder was paid as part of a \$137 million sale in Egypt. In connection with that sale, the company said, "the company made payments of \$8.7 million to two Liechtenstein corporations."

"The company believed that such payments were financing fees necessary in order for the customer to receive the financing and that the ultimate recipients of these payments were the persons who arranged or provided the financing."

"However," Boeing admitted, "the company does not know the individuals who were responsible for arranging the financing."

Boeing, also on the Egypt sale, made a \$900,000 payment to another Liechtenstein corporation for the account of a businessman and public official from the United Arab Emirates, a small confederation of Mideast states.

"This payment," Boeing said, "was made to settle a dispute with this individual who claimed he was entitled to a commission on a portion of the sales for arranging the financing."

Boeing also paid \$5.5 million to middlemen, or consultants, it apparently could identify.

Included in that amount was a total of \$3.9 million given in apparent "rebates" to customers

who had just bought Boeing aircraft.

IN CONNECTION with \$3.6 million of that amount, Japanese officials are reported to be investigating a Boeing consulting agency in Tokyo for possible tax violations.

Japanese officials apparently believe the Nissho-Iwai Trading Co. did not declare the \$3.6 million as taxable, indicating they suspect the firm did not pass the "rebate" on to Korean Air Lines, which Boeing says was supposed to receive it as part of a \$66 million sale in 1973.

Boeing has not publicly given a reason for the apparent rebate, and in its S.E.C. report, without naming Nissho-Iwai or Korean Air Lines, stated only that an airline official "requested" the payment be made, and that it would go "for airline or airline-related purposes."

Japanese officials are also apparently inspecting a letter from a Boeing executive to one of now three Nissho-Iwai officials recently arrested or indicted.

The letter states that \$3.7 million, not \$3.6 million, was paid by Boeing to Nissho-Iwai. Officials have so far not explained the apparent \$100,000 difference.

Japanese authorities also say they think the letter and another document were used by the Japanese company as "makeshift" evidence to evade Japanese taxes on the payment.

Besides that investigation — which Boeing says it is only involved in as "a bystander" — and the Justice probe, the company still has not announced results of a long-going dispute with the Internal Revenue Service.

The I.R.S. has advised the company that some of its deducted overseas expenses would not be allowed but the company has not announced any figures.

Those painful plane-sale disclosures

by RICK ANDERSON
Times staff reporter

The public disclosure of private business was a most somber and reluctant undertaking for America's major aerospace firms this and other years. Their reports to the Securities and Exchange Commission, to settle accusations of securities law violations, were generally nameless, blameless articles of blunted revelation.

Yet, they were not without some fleeting moments of inspiration.

A "big man," for example, said an employee of the Grumman Corp., Bethpage, N.Y., was "someone who carries a bag."

At the McDonnell Douglas Corp. of St. Louis some of its overseas payments "simply conformed to local custom," which, on the other hand, "could be regarded as extortion" in the United States.

The Lockheed Corp. of Burbank, Calif., gave a "gift" to Prince Bernhard, a member of a Dutch royal family, for which Lockheed "expected no specific benefit or action." The "gift" was \$1 million, deposited in a Swiss bank account.

THE BOEING CO. of Seattle said it paid millions to persons unknown, sent money to consultants, relatives and numbered bank accounts, and noted that its only record of some consulting agreements were receipts, canceled checks or bank transfer instructions. It concluded, "Some of the transactions . . . did not fully comply with company policies."

And at the Northrop Corp. of Los Angeles, a \$250,000 check was given to a Saudi Arabian general to test his "credibility" by watching his reaction to "this method of payment."

Apparently, the reaction was negative. The check was returned uncashed, a note was drawn for a middleman who, in turn, paid the officer.

In general, the American companies, whose overseas payments had been questioned by the S.E.C., settled with the government to avoid "protracted litigation," their disclosure statements say.

The companies neither admitted nor denied the S.E.C. charges; such settlements with regulatory agencies are commonly described as "not saying you did anything wrong in the past, and promising never to do it in the future."

Boeing, more so than the others, has insisted there was nothing improper about any of its overseas payments.

In its report to the S.E.C. last year, Boeing revealed as part of the settlement, \$54.9 million in 1971-77 payments based on just under \$1 billion in sales.

The amount of payments Boeing was required

money was paid by Boeing into Swiss and/or Liechtenstein accounts.

Specifically, the world's leading airplane builder listed seven companies in Liechtenstein receiving \$14.9 million and two Swiss banks receiving \$9.8 million. Both of these figures reflect a single \$3.6 million payment that went through both a Swiss bank and a Liechtenstein company.

Boeing, whose report was revealed in detail April 8 in The Times, said there were "several other" unspecified instances of Swiss-Liechtenstein payments those years.

The company apparently can identify the recipients of \$9.8 million of that \$21.4 million, but said it did not know the identities of those who received the remaining \$12.5 million passing through the European accounts.

The McDonnell Douglas Corp. in its November, 1978, disclosures, said that on sales of \$577.7

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million from 1969 through 1976, it made payments of around \$11 million, apparently not including \$1.8 million on separate Japanese sales, as accounting by The Times shows.

Of the \$11 million, \$2.35 million went to public officials or employees of airlines who bought planes. Another \$2.8 million possibly reached relatives of officials. Some other, unspecified millions may have gone to public or airline officials.

(Of Boeing's \$54.9 million, about \$27.1 million went to government-airline-political figures, Boeing revealed.)

AT LEAST \$200,000 of Douglas' payments went to a Swiss bank for an airline official, and other money went to a senior government official in Africa via a Belgian and then a Zaïre bank.

Said the company report:

"To management's knowledge, a (Douglas) employee initiated only one of the transactions . . . and it is management's belief that in most of the other transactions . . . (Douglas) simply conformed to local custom or to demands which under United States law could be regarded as extortion."

The Lockheed disclosures, which have taken several forms, include statements released last February. Earlier, without specifics, the company

"\$1.8 million believed to be for a high government official or his party; \$700,000 believed to be for a high customer official, and \$100,000 believed to be for six government or political party officials."

Numerous others were paid in the governments of Spain, Italy and other unnamed countries. Lockheed also said an Italian journalist got up to \$20,000 for services unstated in the report.

At least several million dollars was put through Liechtenstein companies and Hong Kong and Singapore accounts.

In the latter case, in connection with sales to the Indonesian Air Force, Lockheed said it paid commissions of \$239,000 "to a Singapore numbered bank account purportedly for a fund for the benefit of widows and orphans of members of the Air Force."

"There was," Lockheed added, "conflicting evidence as to the true beneficiaries of the payments."

GRUMMAN CORP., a principal manufacturer of warcraft, said in its report last January it paid \$16 million in commissions in recent years, not counting a \$24 million settlement it had to make with the Iranian government.

Grumman contracted through the United States Navy to sell Iran 80 F-14 fighter planes. Grumman also made an agreement with consultants to pay out a total of \$24 million in commissions on the sales.

But the Navy, which as middleman was selling the planes to Iran for the same price it was buying them from Grumman, told Grumman not to inflate the plane price to include the consultants' pay — and thus to not pay any consulting fees.

Grumman, in 1975, began paying the consultants anyway. It had paid out \$6 million when Iran heard of the deal. The Iranians said Grumman had violated the country's law. It demanded Grumman pay Iran the \$24 million.

Grumman, faced with possibly jeopardizing its deal, settled by giving Iran \$24 million worth of spare parts for the jets. Grumman now faces claims for \$18 million by the angry consultants.

The company also reported it paid around \$2.5

'Kickback' language
was ill-chosen'

million to airline or public officials or those related to them.

not "try to get a 1 per cent kickback" from the Grumman sales representative.

The executive later explained "the language was ill-chosen" and "did not refer to any proposed improper payment of any kind."

The Grumman report, in comparison to most others issued by the American plane companies, is reasonably detailed.

But the champion of disclosure — names, dates, places, step-by-step investigations — is the Northrop report.

It is highly detailed, elaborate, 60 single-spaced pages, stating the Northrop self-investigation grew out of the Watergate special prosecutor's office charges in 1974 that two unlawful contributions of \$150,000 total had been made to the 1972 presidential campaign of Richard Nixon.

The report, which reveals that \$750,000 was paid to a Swiss attorney for work that the company could not prove was ever done, said that the former board chairman, Thomas V. Jones (who resigned in the wake of Watergate charges), paid the attorney because Jones "perceived" the attorney had enhanced Northrop's position in Europe.

AN ACCOUNTING from the report issued in July, 1975, shows \$17.8 million was paid in cash and apparent checks for overseas services in the 1960s and 70s.

Northrop, too, was the only aerospace firm to comment on the touchy subject of corporate morality — as opposed to legal responsibility — in connection with the overseas payments question.

Inherent in the issue is the thought that in some parts of the world, such payments are a way of life — a spinoff of the ancient Cynshaw system where a customer's postal service was based on the amount of money the customer paid to the postman.

Too, there is the monetary benefit to the company. And thus its shareholders, when such questionable payments are made. Costs are usually tacked into the price of the product, paid for by the purchaser. If the company benefits, the shareholders likewise are not likely to complain when presented with the next quarterly dividend report.

Yet, at Northrop, even if paying off made money, officials would not accept it as a way of doing business. It had nothing to do with law, and everything to do with corporate morality, they said.

The acquiescence by Northrop personnel in the assumption that commission agents in certain parts of the world make payments to government officials as a matter of course, they said, "was not limited to the Triad (payment to the Saudi Arabian general) situation."

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violations, were generally nameless, blameless articles of blunted revelation.

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In its report to the S.E.C. last year, Boeing revealed as part of the settlement, \$54.9 million in 1971-77 payments based on just under \$1 billion in sales.

The amount of payments Boeing was required to reveal exceeded those disclosed by the other aerospace firms who settled with the S.E.C.

Boeing's own report also shows it, comparably, was the leader in paying commissions or payments that traveled through protected channels — such as Swiss bank accounts and Liechtenstein corporations.

The identities of Swiss bank-account holders and Liechtenstein "mailbox company" owners are not publicly available and usually legally unobtainable.

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'...simply conformed to local custom ...'

million from 1969 through 1976, it made payments of around \$11 million, apparently not including \$1.8 million on separate Japanese sales, an accounting by The Times shows.

Of the \$11 million, \$2.35 million went to public officials or employees of airlines who bought planes. Another \$2.8 million possibly reached relatives of officials. Some other, unspecified millions may have gone to public or airline officials.

(Of Boeing's \$54.9 million, about \$37.1 million went to government-airline-political figures, Boeing revealed.)

AT LEAST \$200,000 of Douglas' payments went to a Swiss bank for an airline official, and other money went to a senior government official in Africa via a Belgian and then a Zaire bank.

Said the company report:

"To management's knowledge, a (Douglas) employee initiated only one of the transactions . . . and it is management's belief that in most of the other transactions . . . (Douglas) simply conformed to local custom or to demands which under United States law could be regarded as extortion."

The Lockheed disclosures, which have taken several forms, include statements released last February. Earlier, without specifics, the company had admitted making up to \$38 million in questionable overseas payments. Some of those payments led to the toppling of Japan's government and indictment of ex-Prime Minister Kakuei Tanaka, now on trial accused of receiving \$1.5 million in illegal payments.

In its February report, Lockheed did not reveal enough figures to accurately achieve an accounting of total sales and commissions, but said that in connection with \$458 million in sales to Japan from 1970 through 1975, it paid about \$7 million in commissions.

The company said it paid a consulting company millions to apparently pass on to public officials

Liechtenstein companies and Hong Kong and Singapore accounts.

In the latter case, in connection with sales to the Indonesian Air Force, Lockheed said it paid commissions of \$239,000 "to a Singapore numbered bank account purportedly for a fund for the benefit of widows and orphans of members of the Air Force."

"There was," Lockheed added, "conflicting evidence as to the true beneficiaries of the payments."

GRUMMAN CORP., a principal manufacturer of warcraft, said in its report last January it paid \$16 million in commissions in recent years, not counting a \$24 million settlement it had to make with the Iranian government.

Grumman contracted through the United States Navy to sell Iran 80 F-14 fighter planes. Grumman also made an agreement with consultants to pay out a total of \$24 million in commissions on the sales.

But the Navy, which as middleman was selling the planes to Iran for the same price it was buying them from Grumman, told Grumman not to inflate the plane price to include the consultants' pay — and thus to not pay any consulting fees.

Grumman, in 1975, began paying the consultants anyway. It had paid out \$6 million when Iran heard of the deal. The Iranians said Grumman had violated the country's law. It demanded Grumman pay Iran the \$24 million.

Grumman, faced with possibly jeopardizing its deal, settled by giving Iran \$24 million worth of spare parts for the jets. Grumman now faces claims for \$18 million by the angry consultants.

The company also reported it paid around \$2.5

'Kickback' language 'was ill-chosen'

million to airline or public officials or those related to them.

It listed \$4.6 million as passing through the Liechtenstein companies en route to recipients unknown.

In connection with the Iranian sale, the report says an employee of a Grumman subsidiary once described a retired Iranian colonel as a "bag man."

Adds the report:

"The employee has explained that he intended this term to refer to the diplomatic and military practice of transmitting confidential material by courier in a sealed pouch."

The report also reveals that a chief executive of the company told a public official that he should

dates, places, step-by-step investigations — is the Northrop report.

It is highly detailed, elaborate, 60 single-spaced pages, stating the Northrop self-investigation grew out of the Watergate special prosecutor's office charges in 1974 that two unlawful contributions of \$150,000 total had been made to the 1972 presidential campaign of Richard Nixon.

The report, which reveals that \$750,000 was paid to a Swiss attorney for work that the company could not prove was ever done, said that the former board chairman, Thomas V. Jones (who resigned in the wake of Watergate charges), paid the attorney because Jones "perceived" the attorney had enhanced Northrop's position in Europe.

AN ACCOUNTING from the report issued in July, 1975, shows \$17.8 million was paid in cash and apparent checks for overseas services in the 1960s and '70s.

Northrop, too, was the only aerospace firm to comment on the touchy subject of corporate morality — as opposed to legal responsibility — in connection with the overseas-payments question.

Inherent in the issue is the thought that in some parts of the world, such payments are a way of life — a spinoff of the ancient custom where a customer's postal service was based on the amount of money the customer paid to the postman.

Too, there is the monetary benefit to the company, and thus its shareholders, when such questionable payments are made. Costs are usually tucked into the price of the product, paid for by the purchaser. If the company benefits, the shareholders likewise are not likely to complain when presented with the next quarterly dividend report.

Yet, at Northrop, even if paying off made money, officials would not accept it as a way of doing business. It had nothing to do with law, and everything to do with corporate morality, they said.

"The acquiescence by Northrop personnel in the assumption that commission agents in certain parts of the world make payments to government officials as a matter of course," they said, "was not limited to the Triad (payment to the Saudi Arabian general) situation."

"Such acquiescence in what was assumed to be acceptable business behavior in a foreign country reflected a belief by Northrop employees that such unlawful behavior was in the best interests of the country."

"The executive committee has concluded that this belief represented a serious error of judgment. It cannot be condoned."

"In particular," they concluded, "the executive committee is recommending reforms designed to assure that Northrop does not facilitate or condone the exercise of unlawful or improper influence on its behalf by independent representatives, whatever the prevailing morality or customs of the country involved."

TIMES - 4-22-79

Boeing employee denies espionage role

By RICK ANDERSON

Times staff reporter

It wasn't industrial espionage. It was industrial anti-espionage that year in Cocoa Beach, says a Boeing Co. employee.

Then, 1970, as today, the aerospace industry flourished along that stretch of Atlantic beachhead, the Eastern Florida coast. To the north is Cape Canaveral and the Kennedy Space Center; to the south is Patrick Air Force Base. Winged and rocket travel was and is Cocoa Beach's lifeblood.

A tiny piece of that highly competitive industry would later cause special attention to be focused on a boxy, two-story office building in the area.

The building sat back off the roadway, along the sun-baked business strip of Cocoa Beach. During that spring nine years ago, several small and large businesses leased space in the motel-style structure at 320 N. Atlantic Ave.

On the upper level were offices manned by planning and financial personnel of Pan American World Airways.

Directly below, in a single office, was a small business operated by a man and wife, the latter an employee of The Boeing Co. of Seattle.

It was, Boeing says today, a coincidence. It was not a case of industrial espionage, says the company, in expanded response to a previously published charge by a former Boeing executive.

The employee agrees. He says he told the former executive about work he did that year for Boeing in Florida, but the executive misunderstood him.

His mission, he says, was actually to do indus-

trial anti-espionage work for Boeing.

The man, an electronics expert, said he checked Boeing offices at the Cape for possible electronic taps or bugs put there covertly by competitors.

He says he also "hung around" union halls in the area, gathering information on union activities and reporting back to Boeing management.

"But I didn't spy on Pan Am," the employee said in an interview.

Pan Am, whose subsequent jetliner purchases would help Boeing out of a sales slump, was at the time engaged in competitive bidding with several other diversified aerospace firms — one of them Boeing.

AT STAKE in 1970 were two government contracts.

One, awarded in 1971, was for operation of the Eastern Test Range, the missile-flight area off the cape. Pan Am, which held the contract, successfully underbid Boeing, Trans World Airlines and others, to retain it.

The other major contract was a National Aeronautics and Space Administration job for installation and technical support services at Kennedy Space Center. That \$20 million contract was awarded in November, 1970, to Boeing. Among the losers was Pan Am.

Today, The Boeing Co. says its victory at the Cape nine years ago had nothing to do with its employee's leasing space below Pan Am offices.

The company says the employee had set up a short-lived import-export company, on his own, in the office on North Atlantic Avenue. The little

company closed after a couple of months, Boeing says.

A company investigation in 1977 showed there was no truth to the spying claim made by the former company executive, Boeing says.

The executive, whom the company labels a "disgruntled ex-employee," told Boeing officials in 1977 — and a federal court-ordered Boeing review committee late last year — that the employee had told him of the spying incident.

The committee's main purpose was to review Boeing's questioned overseas payments. It says it studied Boeing's own investigation of the charge, then decided not to pursue it further.

Boeing says the man leased the space at the time, saying other comparable space was unavailable. The fact that Pan Am was upstairs was coincidental, Boeing says.

In a statement issued by Pete Bush, company spokesman, Boeing declared: "Our investigation of charges regarding spying in Florida produced no evidence to support (the) allegation . . . In this instance, he (the former executive) attributes statements to a Boeing employee that the employee says are untrue, and a reason for renting an office that the employee also emphatically rejects."

THE FORMER executive said the employee told him of the incident a few years later when the two were on a trip in South America.

The employee, in an interview, says he remembers the South American trip, but not that particular conversation. "I didn't tell him nothing like that," the employee said. "We (Boeing) didn't bug anyone, but we thought someone might bug us. That was my work, to stop that."

In Florida, the employee said, he and his wife rented the space below Pan Am because it was inexpensive, \$100 a month. "My wife was working the little business," he said, "importing alpaca material."

"I was working for Boeing. One of the things I would do was check out our offices for industrial espionage. I checked out a couple of them. Swept them. They were clean. I never found anything."

"Back then, it was suspected someone might try to bug you. Before that, even, it was going on all the time. Almost anyone could bug someone. You could, before they passed the law, go into any store and buy a bugging 'kit'."

His Florida work for Boeing, he said, included "finding out what was going on in the unions. I would just hang around the union halls and then report to my bosses on it." He would not elaborate. His Florida stay lasted only a "couple months," he added.

Boeing said its investigation of the Pan Am case included a review of company expense documents, and it could not find any record of the company paying costs of the lease or any other related expenses on North Atlantic Avenue.

Today, at Boeing, the incident is concluded. It goes into the book as part fiction, part coincidence.

Pan Am, says Bush, "is a long-time and valued Boeing customer and the suggestion that the company would have anything to do with spying on it is ludicrous."

There was, conversely, adds the electronics expert who did Boeing's "sweeping," no indication that any of Boeing's competitors spied on Boeing.

"We never found anything," said the employee. "But we, you know, had to look."

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Monday, April 16, 1979

The Seattle Times A 15

Boeing probe confirmed by Wall Street Journal

by RICK ANDERSON
Times staff reporter

The United States government is pursuing "fraud" and "conspiracy" charges against The Boeing Co., The Wall Street Journal said today, confirming a previous report in The Seattle Times.

Citing a 10-page legal brief released by authorities in Switzerland, The Journal said the brief asserted "that Boeing is under investigation in the United States for possible mail fraud, conspiracy and fraud against the government."

The Times April 8 reported the fraud- and conspiracy-theories investigation by the Department of Justice.

It was learned the investigation is related directly to one or more legal agreements signed with the Export-Import Bank (Eximbank) of the United States.

In at least one instance, Boeing signed a sworn certificate with the bank, stating it hadn't paid commissions or fees except to regular sales agents.

Boeing made that statement in connection with the 1974 sale of \$120 million in jetliners to Middle East Airlines, which in part financed the planes through Eximbank.

In the 10-page brief that The Journal says Swiss authorities released apparently to the embarrassment of the United States — which preferred to keep its course of action secret — Boeing is accused of making "illicit payments" of \$3.6 million.

As previously reported, Boeing admitted it paid a \$3.6 million "commission" on the sale, but said it didn't know to whom the money went. The money, Boeing said, was paid through a numbered Swiss bank account to a mailbox company in Liechtenstein. Mailbox companies often serve as fronts to avoid taxes or disclosure of ownership, and sometimes consist of nothing more than a mail drop for forwarding postage.

The Justice Department, which obtained a Swiss court ruling to pry loose some information about the numbered (No. 188392) account at the Swiss Bank Corp. in Geneva, is apparently intent on tracking the money through Liechtenstein to its recipients.

Although Boeing has denied knowing who wound up with the

money, Justice officials say they think it was employees of the airline to whom the sale was made.

The apparent course is to prove the payment constituted fraud through bribery, as explained in the legal brief.

"The Export-Import Bank doesn't finance sales obtained through the payment of bribes. That would be contrary to its function, which is to promote American exports."

The brief adds: "If the buyer learns of the payment of such bribes, he may consider himself cheated and there is great risk that he will refuse in whole or in part to repay the Export-Import Bank."

Information obtained from the bank in Geneva is being screened by a committee for release to the United States.

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Government probing Boeing statements about plane sales

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(Continued from Page 1.)

count, then release it to a Liechtenstein corporation — where hidden, mail-drop companies flourish.

Boeing did not explain why it was "necessary" to pay the money, and, furthermore, said it did not know who received it.

That is in apparent conflict with the agreement Boeing signed with Ex-Im Bank to back the Mideast loan.

A COPY OF the seller's certificate reads, in part, that if any regular "commission" is to be paid, it must be: "readily identifiable on our (Boeing's) books and records as to amount, purpose and recipient."

Boeing, in the July, 1978, S.E.C. report, referred to the \$3.6 million as a "payment," not "commission," but Ex-Im Bank regulations require that either must be previously disclosed and the recipient identified.

Said Boeing in its S.E.C. report, "The beneficial owner or owners of the Liechtenstein corporation (to which the \$3.6 million was destined) were not then and are not now known to the company."

Boeing said "the airline official who advised the company of the requirement (payment) has assured the company that the money did not benefit any airline employees and that no government approval of the purchase was necessary."

American authorities have since tried to find out who, exactly, received the money.

According to court records filed in Switzerland as part of the United States' successful attempt to pry loose some information about the Swiss bank account where Boeing deposited the money, the Justice Department contends the \$3.6 million constituted "illicit payments."

JUSTICE HAS indicated it thinks the man who arranged the payment was Asad Nasr, a director of Middle East Airlines, and that the money did in fact reach airline employees or others involved in the jet deal.

The Americans are hoping to use information the Swiss court ordered released on the bank account in question — account No. 188392 of the Swiss Bank Corp. of Geneva — to track the money into Liechtenstein, where it passed through a mailbox company called Resora, or Resora Anstalt.

Justice officials, in a 10-page brief to the Swiss court, contend Boeing made arrangements to pay the \$3.6 million May 15, 1974, three months before the actual sale (the Ex-Im Bank credit was established in August, 1974).

The government says Boeing signed a three-way agreement in Geneva with Swiss Bank Corp. and with Resora, depositing the \$3.6 million and setting up the terms for its transfer to Liechtenstein.

Information now being screened by a Swiss judicial committee will, Justice officials believe, help

provide a key to uncovering the money's post-Liechtenstein destination.

THE OTHER \$3.6 million, paid to Korean Air Lines, was given — in the words of Boeing's S.E.C. disclosure — "to a company consultant which the authorizing (Boeing) employees understood would be used by the airline or the owners of the airline for airline or airline-related purposes."

No reason was given for that payment, or a payment of \$87,000 which Boeing said also was made to the consultant, but destined "for the account of (an airline) employee" who had "requested" it.

Boeing's sales agent on the deal was Nissho-Iwai Trading Co. of Tokyo. As part of an investigation into this and other payments by other American aerospace firms, Japanese authorities have taken three Nissho-Iwai executives into custody for questioning.

A Nissho-Iwai spokesman has said that his company, at Boeing's request, forwarded the \$3.6 million to Korean Air Lines as a "rebate" to ensure the sale.

Boeing, in its sworn certification on the Korean sale, pledged to Ex-Im Bank that Boeing had not, and would not, "cause to be granted or paid . . . any rebate."

A report carried in The Japan Times of March 1, 1979, quotes a spokesman for Nissho-Iwai as saying:

"Nissho-Iwai American Co., Nissho's subsidiary in the United States, was asked by Boeing in 1973 to issue a \$2.7 million check to a Korean Air Lines agent on behalf of the U.S. company."

"The subsidiary complied with the request," the spokesman said.

"The U.S. aircraft maker assured Nissho-Iwai in a later letter that the Japanese company would not be inconvenienced in any way in connection with the check," the spokesman said.

Arthur J. Obester, business development officer for Ex-Im Bank in Washington, D.C., confirmed the Justice Department has been looking through Ex-Im's files and that any legal violations would be handled through Justice action.

He said any resulting action would not harm existing or future credits of Ex-Im Bank customers.

"It's done on a case-by-case, loan-by-loan basis," Obester said.

BOEING, ACCORDING to Ex-Im Bank's 1978 report, has \$118.4 million in sales credits pending by purchasers in 15 countries financing through the bank.

The overseas nations have ordered 26 Boeing jets (eight 747s, 14 737s and four 747s), including an order for two 747s by All Nippon Airways of Japan.

Boeing's sales provide one of the major loan outlets for Ex-Im Bank, which helped support \$10.6 billion in United States exports last year. The bank was created in 1934 and established under present law in 1945 to further growth of American exports and lessen what is now a United States balance-of-trade deficit of about \$30 billion.

All in the family between Boeing, Uncle Sam

Switching jobs raises questions of propriety

by Ross Anderson
Times Washington bureau

WASHINGTON — When Dale Babione joined the Boeing Co. four years ago, he came with a wealth of Pentagon experience and contacts that could be assets to a big weapons contractor like Boeing.

It was a short move, no more than a five-minute subway ride from the Pentagon to Boeing's offices on the 20th floor of a steel and glass building in suburban Virginia. The trip can be made without setting foot out-of-doors.

As a deputy assistant secretary of defense for procurement, Babione had helped set Pentagon policy governing weapons contracts. Then he decided to switch to the private sector, and Boeing "made the best offer," he says.

At Boeing, Babione joined 54 colleagues who work the industry side of the multi-billion-dollar defense contracting business.

They are among more than 400 present or former Boeing employees who have moved at one time or another, in one direction or the other, between mid- to high-level defense-related jobs at Boeing and the Pentagon.

That relationship drew national attention recently when it was disclosed that federal authorities are investigating payment of \$400,000 in what Boeing called severance pay to

three former employees who have taken high-level jobs in the Reagan administration Pentagon.

The officials are Melvyn Paisley, assistant secretary of the Navy; T.K. Jones, deputy undersecretary of defense, and Herbert A. Reynolds, deputy director of the Defense Department's Office of Intelligence and Space Policy.

Boeing said it is cooperating with investigators, who apparently want to know whether such payments are customary to departing employees. The company and the former Boeing officials otherwise decline to comment publicly.

Observers say the severance payments are a new wrinkle in an old issue: how to monitor and control the potential conflicts of interest that could arise as high-level workers move between defense-related jobs in government and private industry.

Babione, for one, is rankled at the suggestion there could be a conflict of interest in his job change or that of his colleagues. "I don't get involved with marketing," he says. "I don't sell anything. I deal strictly with rule-making."

But rules, regulations and inside contacts often have as much to do with military contracts as actual salesmanship. This was demonstrated in 1978, when a former Boeing employee, working at the Pentagon, obtained a copy of a secret memo regarding the MX missile. He was able to give his former employer potentially valuable advance knowledge of a weapons system for which it planned to compete.

Babione, who was not with Boeing at that time, says his Pentagon experience was valuable for the same reason it is valuable to hundreds of other defense-related employees who go on to jobs with contractors. His grasp of Pentagon

procurement policy is an asset to Boeing or any other contractor which does business with the government, he says.

That is the most frequent argument both for and against what is sometimes called the "revolving door" between the upper ranks of the Pentagon and major weapons contractors like Lockheed, Northrup, General Dynamics and Boeing.

One recent study indicates that more than 2,000 military officers, executives, engineers and others made such moves between 1971 and 1979. Most are middle-aged officers who retire and finish out their careers with private contractors.

But many others — like Babione, Jones and Paisley — hold positions where their high-level contacts could be advantageous to a company.

Gordon Adams, a researcher and writer who specializes in defense contracting, says potential abuses of inside contacts are only part of the problem.

"The circular flow (of defense-related employees) creates a community of shared assumptions about policy issues and developments," Adams says.

The result, he suggests, is that major decisions about how to spend the nation's military budget often are made in a narrow, almost incestuous arena that excludes broader perspectives.

■ Boeing ranks about sixth in the size of its military contracts, but a clear No. 1 among defense contractors in the rate at which employees have hopped between the company and the Pentagon. **Issues, A 20.**

WASHINGTON, D.C. — They don't like the term or its implications. But they've all been through the revolving door:

— Frank Shrontz quit the Boeing Co. in 1973 to become assistant Air Force secretary, then assistant secretary of defense; today he is back at Boeing, a vice president for sales and marketing.

— James Beebe was a technical advisor on nuclear weapons in the Ford administration Pentagon before becoming a manager for the Boeing Military Airplane Co.

— Maj. Gen. Charles Kuyk commanded a military-airlift unit in California for five years; now he's a supervisor in "airlift and strategic systems" at Boeing.

— T.K. Jones, now a deputy undersecretary of defense, has revolved through the door three times in 11 years. Now he's back at the Pentagon, and federal investigators are looking into severance pay he and two other former Boeing executives received when they took Defense Department jobs in 1981.

The list goes on and on. In the past decade, more than 400 high-ranking officials have transferred from federal defense or space-related jobs to Boeing, or from Boeing to the government agencies. Among them are retired military pilots, computer programmers, physicists, engineers and technical writers.

Also among them are several executives directly involved in weapons contracts between Boeing and the Pentagon.

Federal records indicate that Boeing has hired more Defense Department employees than any other defense or space contractor.

The workers say it is because Boeing is the leading aerospace company, based in a livable part of the country — a powerful magnet for the military retirees who are the most frequent transferees.

Defense and space business has become increasingly important to Boeing as commercial-airplane sales have slumped. Boeing has a wide range of federal contracts — cruise missiles, AWACS airplanes, subcontracts for MX missiles, the space shuttle, B-1 bombers, upgrading of B-52s, Minuteman missiles and more.

In 1980, Boeing reported \$1.4 billion in U.S. military and space-related business. Commercial-airplane sales were more than five times as much, at \$7.6 billion.

By last year, military and space business had more than doubled to \$3.3 billion, while commercial sales dropped to \$5.1 billion.

More striking are the profit figures. Last year, Boeing reported \$16 million in profits from commercial-airplane sales, while military and space-related profits had quadrupled in two years to \$365 million.

As Boeing's weapons business grows in what is becoming a highly competitive field, the company's ties with the Pentagon become more critical, a trend dramatized by the rate at which it hires former Pentagon employees.

Between 1979 and 1981, there were 139 transfers between Boeing and defense or space-related agencies, according to Pentagon records. At the same time, Lockheed had 94 reported transfers, Northrop had 92, and McDonnell Douglas, 67.

Yet Boeing still ranks only about sixth in military and space contracting among the giant companies.



EVER since Dwight D. Eisenhower warned about the "military-industrial complex," government watchdogs have been concerned about the revolving door. They warn that the Pentagon and big defense contractors like Boeing comprise a closed community that spends billions of tax dollars every year.

"To the insider, this intimacy seems to foster technical and political knowledge that smooths the contracting process, insuring a more efficient defense of national security and the public good," says Gordon Adams, a private researcher and author of "The Iron Triangle," a 1981 book on the military-industrial complex.

"To the outsider, it suggests favoritism, a narrowing of perspective in which the private and government interests converge in a single vision that excludes a wider perspective."

That argument was dramatized five years ago when a Boeing lobbyist transmitted notes from a confidential Pentagon memo on the MX missile to Seattle. Pentagon authorities complained that the transmission violated national security, but the incident also raised questions about the way Boeing obtained the information on a potential multi-billion dollar missile contract.

According to Adams, and news reports at the time, the memo initially was made available by a former Boeing employee working at the Pentagon (He's now back at Boeing). Another key player was a Boeing vice president who happened to be a former assistant secretary of defense. Yet another was a former Boeing employee working for the House Armed Services Committee.

At the time, The Wall Street Journal quoted an unnamed defense official as saying, "This type of thing happens all the time" among job-hopping officials in the tightly knit circle of military contracting.

A SAMPLING of former Pentagon employees said in telephone interviews that it was not natural for them to move to jobs with contractors like Boeing. Federal programs generally allow retirees to supplement their pensions with jobs in private industry, and the logical place for a second career is with a defense-related employer.

"We have a very nice situation," said Charles Kuyk, retired Air Force major general. "I retired from Gig Harbor and I wanted to go back to work. Boeing was interested."

Kuyk's experience with military-airlift requirements was an obvious asset to a company trying to sell its 747 as a military transport. So Kuyk went to work on "airlift and strategic systems" for Boeing.

"Sure. I take advantage of my experience," he said. "I know the requirements. I know airlift. If I knew something about houses, I'd be selling real estate, I suppose."

Others echoed that reasoning.

"I go where my skills are," said Bill McGinty, public spokesman in Boeing's D.C. office and former Pentagon public-affairs officer. "They buy my experience and my skills. I'm just making a living like anyone else."

Moreover, the workers argue that the movement of personnel results in a healthy exchange of experience and expertise which benefits both the public and private interests.

Frank Shrontz, who has been to the Pentagon and back, said the federal interlude was his public service, an opportunity to lend his skills to his country.

"When I was at the Pentagon, I volunteered not to get involved in decisions that involved Boeing. I terminated all ties. I had no sense of loyalty to Boeing."

And he did the same when he returned to Boeing four years later, Shrontz says. "I've had no contact with anybody at the Pentagon since I left."

CONGRESS has made no attempt to close the "revolving door," but there have been attempts to keep track of who goes through it. A 1969 law requires former high-ranking defense-related officials to file annual reports for three years after transferring from the government to a major defense contractor, or from a contractor to the Pentagon.

The simple, one-page form asks the official to describe briefly his responsibility in each job. The Department of Defense collects the annual reports and compiles a report for Congress.

In addition, Congress prohibits former government officials and former defense-contractor officials from representing their former employers in contract negotiations for two years, and, in certain cases, for longer periods.

Ultimately, such laws are difficult to enforce, although there are stiff penalties for ignoring them.

Defense employees bear the responsibility for complying with the law, and Gordon Adams says there is reason to believe that many fail to report, not only because they are unaware of the requirement.

Moreover, any real conflict could easily be camouflaged in bureaucratic jargon. Take, for instance, the Boeing transferee who described his former Pentagon job as: "Staff officer at HQ USAF/XOORC, HQ USAFE/DOZ HQ AAFCE/OP (NATO), command and control systems."

In a 1979 policy bulletin, Boeing reminded employees of the applicable federal laws and made them individually responsible for complying with the rules. In particular, the company attempted to unravel the legal language which bans former federal officials from "selling" to their former agencies for two years after their transfer.

"It is extremely difficult to draw the line between what is and what is not 'selling' where the retired regular officer initiates contacts with government personnel," the bulletin says. But the company concludes that the ban covers "any pre-contract contact with government personnel on behalf of a company which does sell to the government."

After two years, the ban is lifted. The employee is on his own.

And officials generally figure that no legislation could get around the fact that the sensitive questions often come down to individual ethics.

"I know where my integrity lies and my company knows where its integrity lies," says McGinty.

At least one former Pentagon employee figures the proof is in the pudding: If Boeing is trying to buy influence at the Pentagon, it's not doing a very good job of it, says William Roy Anderson, a longtime Pentagon employee who switched to Boeing in 1980.

In the past two years, Boeing has lost more major defense contracts than it has won, he points out.

"I was just complaining to my partner that it's the other contractors that seem to have all the suction these days," Anderson says. "Boeing keeps getting the short end of the stick."

How much should the public know?

WASHINGTON, D.C. — What is a reasonable price for public disclosure? When does the public's right to know clash with the government's ability to do a job?

The questions pop up again this spring as the Defense Department begins compiling hundreds of reports filed by hundreds of workers who have passed through the "revolving door" between government and private industry in defense and space business.

Under a 14-year-old congressional statute, high-level Pentagon officials who take jobs with major defense contractors, or former contractors' officials who go to work for the Pentagon, must file annual reports for three years after the switch.

The one-page "Defense-related Employment" report asks the officials to describe briefly their duties with the government and with the contractor. It asks for no financial disclosure or other details.

Government watchdogs like Common Cause say it is a worthwhile way of monitoring the flow of people — and potential influence — in the multi-billion-dollar business of weapons-contracting.

But the Reagan administration says the reports are another unnecessary burden for a government wallowing in paperwork. Administration supporters have introduced legislation to repeal the requirement.

"It is very time-consuming, going out to the contractors and collecting the reports," says Capt. Bob Jones, who directs the Pentagon's Office of Compensation, where the reports are filed and compiled.

"Each year, Congress imposes new reports on us. You could employ a Pentagon full of people to just handle all these reports. At some point, you have to review them and decide if they're worth it."

Lawrence Korb, an assistant secretary of defense, has argued that the reports take too much money, too much staff time and too much space. And nobody uses them, he says.

The watchdogs disagree.

Too burdensome? The law places responsibility on individual officials to file the reports, say the watchdogs. Boeing officials confirm they merely post annual reminders on bulletin boards and newsletters. Officials interviewed by The Times said it took them five to 10 minutes to complete the reports. Since the reporting requirement is not enforced, there is no way of knowing how many people miss the notices and fail to report at all.

Too time-consuming? Jones figured it would take a clerk about six weeks to compile the forms into its annual report to Congress. That translates into about 240 hours.

Too costly? Korb has been quoted as saying the costs run to "several million dollars a year." But he declined to elaborate. The visible costs amount to 240 clerk-hours (about \$2,000) and the costs of printing the simple forms.

Too much space? The reports for the past decade fill one normal bookcase deep in the Pentagon. That's about 20 square feet in a building with 3,705,793 square feet of useable space, not counting closets and miles of hallways.